Miton

Beyond
the credit boom . . .

Miton Group plc

formerly known as MAM Funds plc

Annual Report and Accounts

For the year ended 31 December 2012

... a turning point

- A credit boom is a period characterised by the widespread availability of easy borrowing.

- Normally credit booms do not last long as extra inflationary pressures force up interest rates preventing over-extended leverage. But the recent credit boom has been different for two principal reasons. It has been global in scale and has persisted for over 25 years.

- Credit booms distort markets. During credit booms asset prices tend to rise quickly so they favour the speculative over the prudent.

- The present credit boom has been with us for so long that investors have come to treat it as normal. However, as we move beyond the credit boom investment trends are changing. We have reached a turning point.

- Few funds appear well-positioned for the new investment trends beyond the credit boom. Miton's proposition is a straightforward combination of leading fund managers, along with largely unconstrained strategies that are carefully applied to take advantage of the changing market trends.

Miton Group plc is an AIM-listed fund management business, formerly known as MAM Funds plc.

Our investment philosophy is based on the belief that we can manage our clients' funds better because we recognise the nascent investment trends beyond the credit boom.

Our Annual Report outlines the key characteristics of Miton Group and how we believe the investment landscape will change beyond the credit boom. The important elements of our strategy are highlighted on the pages below:

- What Makes Us Different? – pages 6 and 7
- The fund management industry beyond the credit boom – pages 10 and 11
- Post credit boom investing – a case study – pages 12 and 13

Go to www.mitongroup.com for more information

Use you phone's barcode app to go to our website

Our Business

Governance

Company and Group Accounts

Starting the climb

Business Highlights

Net inflows:
- Positive total net fund inflows for the year of £62m despite mixed market conditions.

Growing equity specialisation:
- Two successful C share issues for Diverse Income Trust (£30m in July and £31m in December) resulted in total assets increasing to £120m.
- CF Miton UK Multi Cap Income Fund reached £48m in assets only 15 months since launch.

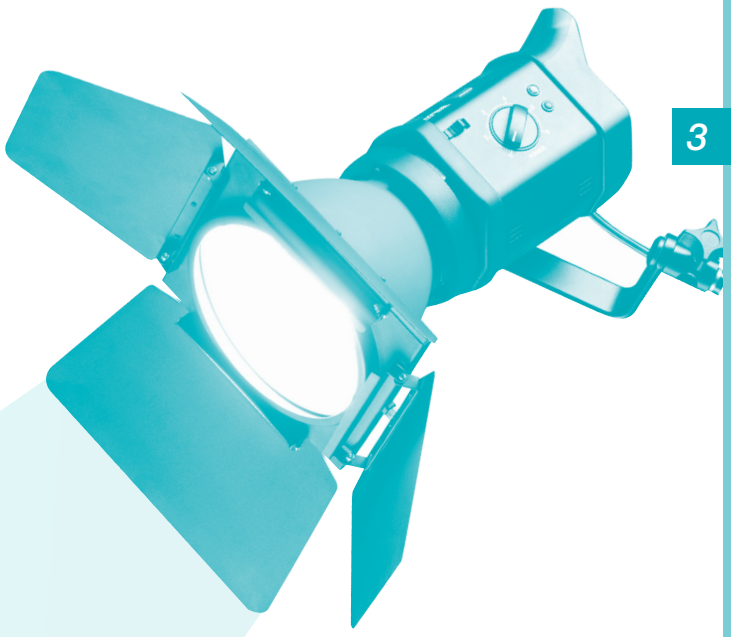
New fund launches:
- In May we launched Miton Global Diversified Income Fund.
- In December we launched the CF Miton UK Smaller Companies Fund.

Existing funds relaunched:
During the year we relaunched and renamed four funds:
- CF Miton Total Return Fund
- CF Miton Worldwide Opportunities Fund
- CF Miton Diversified Growth Fund
- CF Miton Distribution Fund
  - the latter two being newly risk-rated funds meeting the increased demands of IFAs.

New fund managers:
We welcomed four new members to our fund management team heralding the launch of three new funds in 2013 with distinctive strategies in the UK mid and large cap and US multi cap sectors:
- Nick Ford and Hugh Grieves, US equity fund managers; and
- George Godber and Georgina Hamilton, UK equity managers.

Unifying under the Miton Group brand:
- All OEICs renamed Miton.
- Plc name changed to Miton Group following shareholder approval.

Development of business support functions:
- CRM system implemented.
- Group investment management system being introduced in 2013.



Financial Highlights

	2012 £m	2011 £m	%
Assets Under Management at 31 December	**1,786**	1,666	+7.2
Net Revenue	**11.6**	11.2	+3.6
Adjusted Profit[1]	**3.9**	3.6	+8.3
Profit/(Loss) before Tax	**0.9**	(0.4)	
Cash generated from operations	**3.6**	2.5	+44.0
Total Cash Balances at 31 December	**12.0**	9.9	+21.2

	pence	pence	%
Earnings per share	**0.80**	0.25	+220.0
Adjusted EPS[2]	**2.47**	2.45	+0.8
Proposed dividend per share	**0.45**	0.40	+12.5

Notes
(1) Adjusted Profit is before amortisation, exceptionals and taxation.
(2) Adjusted EPS excludes charges for amortisation and exceptionals and associated taxation.

- Increased AUM to £1.8bn despite mixed market conditions.
- Administrative costs, including share-based payments, increased by 4.9%: tightly controlled with cost income ratio at 66.3% compared with 66.1% in 2011.
- Adjusted Profit increased by 8.3% to £3.9m includes £0.2m write back of unutilised provisions and a fall in interest charged.
- Cash balances at the year-end up 21% to £12.0m, with £5.6m considered free cash.
- Earnings per share were particularly depressed in 2011 due to exceptional charges of £1.1m.
- Adjusted EPS is broadly unchanged due to the increases in Adjusted Profit being offset by an increase of 7.1% in the average shares in issue.

Raising our trajectory

Ian Dighé
Executive Chairman

"Miton has had a very active and profitable year. We have stepped up the investment in and the trajectory of the business and expect to continue this strategy in 2013. Our refocused and expanded range of funds, and talented fund managers, are building a strong platform for growth."

Assets under management	Cash generated from operations	Adjusted Earnings per share
£1,786m	£3.6m	2.5p

Chairman's Statement

Results

Against a backdrop of mixed market conditions in 2012, Miton has made good progress with a step up in its market presence and an increase in Adjusted Profit to £3.9m. We addressed the strategic priorities outlined in my statement last year – sowing many seeds for the future capacity and trajectory of the business.

Starting the climb

A summary of the key actions and achievements of the year are detailed on page 8 – 'How we are changing' with further detail in the Business & Financial Review on page 15.

In summary, we made changes to our existing funds including:

- the merger of two smaller funds with appropriate existing products
- the relaunch of four funds to clarify and redefine their investment proposition.

I am particularly delighted that towards the end of the year we recruited four new members to our fund management team. We therefore welcome Nick Ford, Hugh Grieves, George Godber and Georgina Hamilton, all of whom share our culture and are well known to our existing team. We aim to build upon the success of our UK equity funds with the launch of three new equity funds that they will manage, and which will have distinctive equity strategies in the UK mid & large cap and US multi cap sectors.

The performance and growth of our new equity funds has been particularly encouraging. During the year we raised over £60m in two C share issues for the Diverse Income Trust to take it decisively over £100m of total assets.

The CF Miton UK Multi Cap Income fund grew to just under £50m by the end of the year. The Miton Global Diversified Income Fund was launched in May and a new CF Miton UK Smaller Companies fund was launched successfully in December.

Work in Progress

Although we have made good progress, we have not yet stemmed the outflow of funds managed by our Liverpool office. We have implemented a number of changes which should enable further progress in 2013:

- significant changes to the investment approach of the two main funds have yielded good results in terms of improved investment returns and lower volatility
- the funds are now risk-rated - providing solutions for a growing area of retail investment
- the portfolio strategies are better suited to post credit boom trends
- they have been rebranded under the Miton brand.

During the year, we examined a number of complementary business development opportunities. One of these was successfully completed after the end of the year when, in February, it was announced that Gervais Williams and Martin Turner were appointed the new managers of the £80m Henderson Fledgling Trust. We continue to attract the interest of individual fund managers and teams, given our strong sales channel and our enthusiasm for building out our range of single strategy funds.

Change of name and fund rebranding

Shareholders approved the change of the Company's name to Miton Group plc in January 2013. Given the track record of the CF Miton Special Situations and CF Miton Strategic funds, the Miton brand is already synonymous with outstanding long term performance, along with closely managed volatility that has often sustained investors' capital at times of market stress. Unifying under a single brand underlines that our fund managers work in common purpose across a number of different asset classes. Miton's proposition is a straightforward combination of leading fund managers, along with largely unconstrained strategies that are carefully applied to take advantage of the changing market trends.

Naturally we have also rebranded all our OEICs under the Miton brand too. The Directors believe that changing the Company's name to Miton Group plc reinforces these brand changes and will help to communicate the distinctive nature of the Group's product range to potential investors and intermediaries. On page 7, our investment philosophy is outlined in more detail.

Dividend

Last year we paid our first dividend for four years as part of a new progressive dividend policy. This year, the Group generated cash from operations of £3.6m (2011: £2.5m). Therefore the Board is proposing to pay a dividend of 0.45p per share on 20 May 2013 to shareholders registered at 2 April 2013 (2011: 0.4p): an increase of 12.5%. The increase reflects the Board's confidence in the future prospects of the Group.

Priorities

There is much to be accomplished in the coming year and beyond in order to continue to grow Assets Under Management.

- Launch new funds managed by our new teams
- Upgrade our group-wide fund management software systems to scale up our capacity to manage additional portfolios.
- Continue to bring in enthusiastic staff to increase our effectiveness as a company to deliver excellent customer service in every aspect of our business.
- Improve our engagement through new media so we can widen the understanding and appreciation of how our clients' funds are positioned as market conditions evolve.

Our core strategic priorities are to:

- Clearly and effectively promote the Miton investment philosophy.
- Stem the outflow of funds from the OEICs managed by our Liverpool office.
- Increase our fund range so our strategies are matched to a wider range of clients' needs.

Outlook

We are significantly building the capacity of the Group to manage a much greater level of assets under management. This is being achieved through the recruitment of new fund managers, the recent and planned launch of new funds, the winning of new mandates and the upgrading of our systems across the Group. Through these specific initiatives we will raise business trajectory over the coming years.

Staff

I would like to recognise the dedication and hard work of our employees during 2012. Our business has asked a lot of our staff and they have been more than willing to address the challenges.

Ian Dighé
Executive Chairman
15 March 2013

What makes us different?

How we are different . . .

- We are investment led. Our team, headed by Gervais Williams, is passionate about delivering attractive returns for our investors in spite of investment challenges.
- The volatility of our funds is reduced when market risks are believed to be elevated.

At Miton . . .

- We attract leading **fund managers** with established track records and the specialist knowledge to deliver value for investors.
- We **focus** on:
  - crafting appropriate investment strategies for the market challenges beyond the credit boom
  - long term relationships; and
  - rigorous standards of compliance.
- We offer a range of funds which cater for investors' needs in two main ways:
  - **multi asset funds** which aim to deliver attractive returns through participating in the appreciation in a wide range of assets whilst still having an eye to minimising volatility at times when downside risk could be significant.
  - **equity funds** which aim to deliver excellent returns through identifying under-researched, under-appreciated and under-valued companies. Typically our equity funds will carry a higher degree of volatility than our multi asset funds.

What is our investment philosophy?

A turning point

Since the 1980s, investors and investment products have been optimised for credit boom conditions. Consequently, we would contend that most funds are not well-positioned for a major change in global, economic trends as we move beyond the credit boom.

Booms are characterised by rises in asset prices. They are normally short lived and cyclical in nature. We are at the end of a period of growth, fuelled by debt or a 'credit boom', which has persisted for 25 years and which has been global in scale. Speculative and potentially excessively volatile strategies have become endemic within the investment industry.

Within our multi asset funds, we principally use a macro-economic, top down investment approach. For our equity funds, there is a greater focus on specific stock selection from the bottom-up. However, significantly at Miton we allow our fund managers greater freedom to use their knowledge and experience to manage funds without being unduly constrained by conventional benchmarks.

Importantly, our approach gives our fund managers greater ownership of the risks and rewards of their portfolios. This culture best suits leading fund managers who can use their superior talent, experience and conviction to greatest effect.

"We are independently-minded and do not necessarily follow the herd. Most of our funds do not use traditional benchmarks and our fund managers are given the freedom to have the courage of their convictions to deliver better risk adjusted returns for our clients"

What will the new investment trends be?

Three important trends that have been under-appreciated during the boom:

- **Premium yield/value shares typically outperform**. During the credit boom, many portfolios have backed growth stories rather than companies with good and growing dividends/intrinsic value which have progressively outperformed over the last 100 years.
- **Multi cap rather than narrow indexation.** Credit boom strategies have tended to favour a narrow range of stocks. In sharply rising markets, capital gains can be taken through trading strategies and overall portfolio performance mimicked the returns of the mid/large cap index benchmarks. Prior to the credit boom, multi cap portfolios were favoured because all holdings were selected for their scope to deliver absolute returns. Smallcap stocks in particular have the advantage that they can perform well even at times of tepid index returns. Smallcap outperformance is beginning to become re-established.
- **Diversification can be found in developed economies.** Although worldwide diversification has a place within portfolios, during more unsettled periods immature economies can impose unwelcome constraints on overseas investors. In contrast, diversification via smaller quoted companies in the developed economies can not only enhance expected return but also has the benefits of well-developed investor protection.

How we are changing

We have recently unified under one brand:

We are now developing in the following ways:

- **We are developing our multi-asset fund range:**
  - in May, we launched ***Global Diversified Income:*** a Dublin registered fund delivering attractive income by investing in a range of asset classes and world markets
  - in December, we relaunched our ***Total Return*** fund to deliver a return above LIBOR that comprises a mix of assets that is lower risk than most other multi-asset funds
  - in October, we relaunched our ***Worldwide Opportunities*** fund that seeks capital appreciation through investing in closed ended funds where great price anomalies can exist.
- **We are developing our single strategy equity funds:**
  - we are building on the early success of ***UK Multi Cap Income*** and launching a range of funds based on specialist knowledge, experience and track record
  - our ***UK Smaller Companies*** fund was launched in December and is distinctive in that it focuses on smaller UK quoted companies with scope to generate good and growing dividend income some years ahead. Gervais Williams has a long investment record of generating industry-leading returns for investors in this sector
  - our ***US Opportunities*** fund will be launched in March 2013 focusing on undervalued US listed companies within the multicap Russell 3000 universe: Managers Nick Ford and Hugh Grieves have an exceptional track record in this area
  - our ***UK Value Opportunities*** fund will also be launched in March to deploy a distinctive value strategy across the whole of the UK market: George Godber and Georgina Hamilton have an impressive record of success with this approach.
- **We are providing risk-rated fund products tailored to current market conditions:**
  - our rebranded ***Distribution*** fund is managed on a predominantly top down, thematic basis, with a value bias towards providing balanced, diversified premium income for long-term investors.
  - our rebranded ***Diversified Growth*** fund is managed with a similar approach, providing a core balanced growth fund with closely managed volatility for long-term investors
- **We are investing in the business to facilitate growth and ensure a high standard of business management:**
  - our Customer Relationship Management (CRM) system, client database, tailored software and upgraded reporting routines provide specific information so we can ensure we keep our client base right up to date with the positioning of our portfolios.

"Shareholders approved the change of the Company's name to Miton Group plc in January 2013. This underlines the distinctive nature of the funds managed by the Group as we move beyond the credit boom"

Our management team at Miton Group plc:

Investment

Gervais Williams
Managing Director

Gervais has a successful long term track record of investing in small and microcap companies and income funds. He has also written extensively on post-Credit Boom investing.

Martin Gray
Fund Management Director

Martin has a successful long term track record through capturing the appreciation of a range of assets yet also through reducing portfolio volatility at times when market risk is believed to be elevated.

☞ See page 22 to 23 for biographies

Business management

Ian Dighé
Executive Chairman

Graham Hooper
Distribution Director

Robert Clarke
Group Director of Finance & Operations

Roger Bennett
Chief Risk Officer and Company Secretary

The fund management industry beyond the credit boom...

Gervais Williams
Managing Director

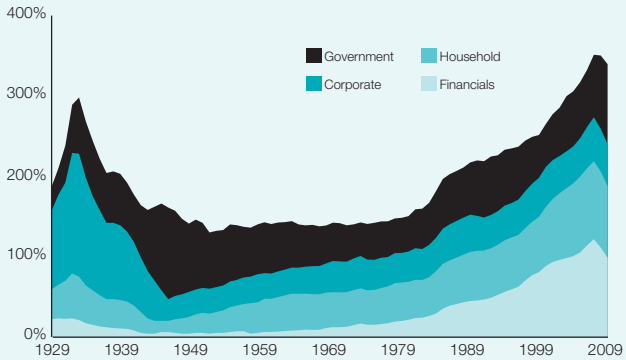
"As a forward-looking business we are preparing ourselves for a time when QE runs out; a time when the absolute amount of debt in the economy could start to fall back"

The fund management industry beyond the credit boom

The last 25 years have been marked by a significant rise in asset prices. Not only equities, but also bonds, property and commodities have participated. The key issue is that asset prices tend to run up during credit booms. Given that this credit boom has lasted more than 25 years, and has been global in nature, asset prices have tended to rise off and on for an extended period.

The trend of rising asset prices has had a significant impact on the way that investors have invested. Frequently the best performing shares have been those that are the most speculative. Indeed, with indices rising relatively rapidly at times, it has been difficult for professional fund managers to keep ahead. Those too cautious have been regularly outpaced by the more adventurous. Darwinian forces have gradually weeded out the excessively prudent. Trading strategies have come to predominate. The culture of the financial industry has radically changed over the last 25 years.

US Credit market debt 1929 – 2009
% of nominal US GDP

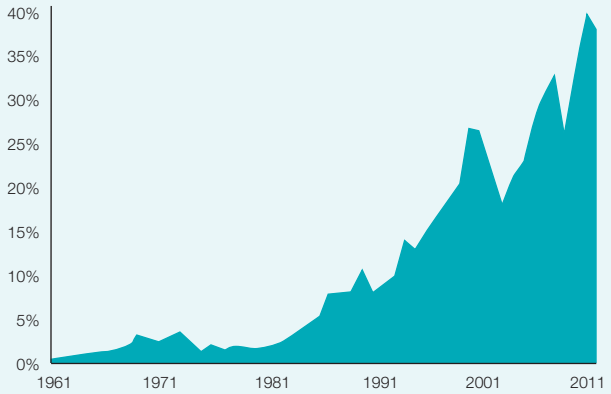


Source: Morgan Stanley Research, Bloomberg and IMF

Debt as a percentage of GDP was stable for a long period before breaking out upwards around the middle of the 1980s. In the UK, the late 1980s was marked by 'loadsamoney' headlines with sharply rising house prices. And although this did drop back a bit over the early 1990s, the upward trajectory was resumed after the UK came out of the ERM in 1992.

The chart on page 11 outlines just how the scale of the Fund Management Industry has changed over the duration of the credit boom. Prior to 1985, the industry typically managed assets valued at rather less than 5% of the UK economy. However, after the credit boom took off, this value had risen and risen to beyond 35% of the UK economy. Effectively the fund management sector has grown some ten times in scale during the credit boom.

Funds under management as a percentage of GDP (1960 – 2011)



Source: The IMA Annual Survey: Asset Management in the UK 2011-2012

How has this come about? For every pound of credit that is lent, double entry bookkeeping requires an extra pound to be entered on the balance sheet. During credit booms, there is a much greater willingness to take on additional borrowings. So as debt grows, so does notional cash. In time, a proportion of this capital finds its way to professional fund managers. Furthermore during the boom new fund management sectors have evolved. Prior to the credit boom most corporate credit was funded by banks. But during the credit boom corporate credit has become freely traded with much held in specific funds. We would argue that the change in the scale of the fund management industry has some correlation with the growth of credit during the boom.

Beyond the credit boom it seems unlikely that the credit mountain will unwind rapidly. In the short term central bankers have opted to buy in bonds and this has permitted many Governments to sustain sizeable budget deficits. So whilst banks have been downsizing the scale of their balance sheets, this has been offset by the dis-saving of the state. Whilst this persists the overall scale of the fund management industry is likely to be broadly unchanged.

As a forward-looking business we are preparing ourselves for a time when QE runs out; a time when the absolute amount of debt in the economy could start to fall back. Already the trends in the fund management industry are beginning to evolve as clients' preferences change.

At Miton we aim to make our business trajectory largely independent of the trends of the sector.

- First, since we do not have significant legacy portfolios with elevated volatility, we anticipate that our funds are less vulnerable to the more adverse trends as credit boom conditions come to an end.
- Secondly, we have crafted our investment strategies so our funds should be better positioned for the potentially choppy markets beyond the credit boom. Good examples are the CF Miton Special Situations and CF Miton Strategic funds which have typically attracted greater inflows at times when the equity market has suffered a setback.
- Our strong balance sheet, positive cash flow and listed status should permit sustained investment in the business through potentially changeable market conditions when others might be forced to retrench.
- Finally, we have increased our visibility through the unification of our business under the Miton brand. Our distinctive philosophy has already attracted two highly regarded fund management teams to Miton. Not only are we now better placed to grow our customer base, but also to widen our product range by launching new funds that are highly differentiated from the competition.

Gervais Williams
Managing Director

Post credit boom investing:

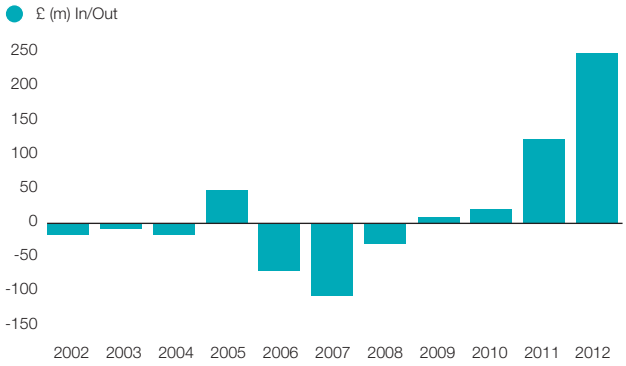
A Case Study

Applying post credit boom thinking to UK Growth & Income Investment Trusts

UK Growth & Income Trusts are distinctive from other Investment Trusts because their dividend yields are at least 15% above that of the FTSE All Share Index.

During the credit boom, many advisers felt that equity income funds were only appropriate for equity savers requiring immediate income. For this reason most funds in the sector did not attract inflows during the credit boom. However, after the sharp reduction in UK interest rates in 2008, the premium income on these Trusts has become more widely appreciated. This differential is now attracting growing inflows with many Trusts standing at share price premiums to their underlying Net Asset Values.

Fund Flows for UK Growth & Income Investment Trust Sector

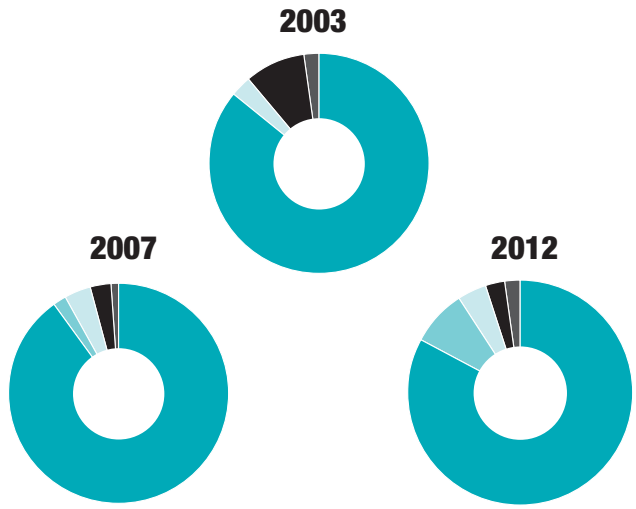


Source: Cenkos Securities

During the credit boom, most funds sought to deliver attractive returns for their investors through strategies that maximised capital gain. Prior to 2008 many funds progessively narrowed their interest to the largest 350 LSE quoted stocks since these were performing well and included many companies that were taking advantage of the globalisation of the world economy. Trusts in the UK Growth & Income sector reflected the wider market trend with their holdings in Mid and Large Cap Indices rising from 86% in 2003 to 91% in 2007.

As yet beyond the credit boom few UK Growth & Income Trusts have widened their focus away from the mid and larger companies albeit that the percentage allocated to overseas equities has increased from 2% to 8%. A post credit boom strategy suggests that returns would be enhanced through investing in a multicap basis. This would give greater added value through selecting from a wider pool of potential holdings particularly for stocks with enhanced dividend growth potential. These stocks could be largely independent of the weak economic trends such as those that operate in niche markets enjoying structural growth. Stocks with stronger balance sheets could be favoured too so the fund would be able to better sustain dividend payments through any wider setbacks.

Asset Allocation for UK Growth & Income Investment Trust Sector



Source: Cenkos Securities

- FTSE 350
- Overseas Equities
- Smaller Cos.
- Fixed Interest & Cash
- Other

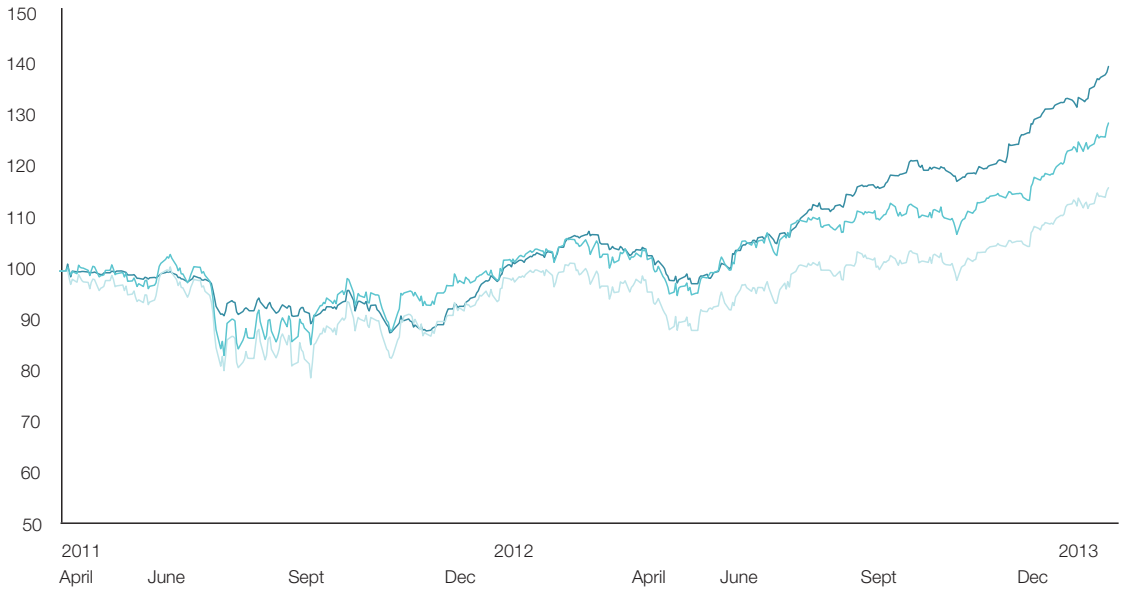
Prior to the credit boom, stocks in the bottom 10% by market capitalisation typically outperformed the general market. Stocks in the bottom 2% outperformed both of these groups. In future, as the factors above are more recognised, we believe portfolios with greater percentages of stocks outside of the largest 350 stocks will outperform again, re-establishing the prior trend.

Around three-quarters of the stocks quoted on the LSE and AIM markets are outside the FTSE 350 Index. So portfolios with significant holdings outside the FTSE 350 offer real diversification benefits too.

At the end of April 2011 Miton established the Diverse Income Trust plc (DIT) with a portfolio of around 100 stocks selected on these criteria. Around one third of the portfolio was invested in FTSE 350 stocks with the remaining two thirds invested in small and microcap stocks. Since April 2011, DIT has delivered some of the best returns in the sector along with Net Asset Value volatility that is amongst the best in the sector.

In a similar manner we anticipate that there are opportunities to apply post credit boom investment strategies to other fund sectors. Miton has recruited Nick Ford and Hugh Grieves to set up some US equities funds and George Godber and Georgina Hamilton to set up some UK Value funds on this basis.

Performance of the Diverse Income Trust plc since inception



Source: Cenkos Securities

DIVI NAV TR Rebased
FTSE All-Share TR Rebased
UK Growth & Income Peer Group Nav TR Rebased

In 2012 we have clarified and rebranded our product range

Robert Clarke
Group Finance Director

"Cash generated from Operations of £3.6m up from £2.5m in 2011"

Product Range

Existing Strategies	Asset Under Management 31.12.12 £m		Managers	Launch Date
Multi Asset Funds				
CF Miton Special Situations	828	U	Martin Gray/James Sullivan	Dec 97
CF Miton Strategic	247	U	Martin Gray/James Sullivan	Dec 96
CF Miton Worldwide Opportunities	22	R	Nick Greenwood	Apr 03*
CF Miton Total Return	13	R	James Sullivan/Martin Gray	Nov 06
Miton Global Diversified Income	5	N	James Sullivan/Martin Gray	Jul 12
Risk Rated Multi Asset Funds				
CF Miton Diversified Growth	181	Rr	Simon Callow/Mark Wright	Apr 02
CF Miton Distribution	147	Rr	Alan Borrows/Richard Parfect	Apr 02
Equity Funds				
CF Miton UK Multi Cap Income	49	r	Gervais Williams/Martin Turner	Oct 11
CF Miton Smaller Companies	4	N	Gervais Williams/Martin Turner	Dec 12
Investment Trusts				
The Diverse Income Trust plc	119	U	Gervais Williams/Martin Turner	Apr 11
Midas Income & Growth Trust plc	50	U	Alan Borrows/Simon Callow	Aug 05
Miton Worldwide Growth Investment Trust plc	37	U	Nick Greenwood	Apr 04

* Date of change of manager
R Relaunched in 2012
r Rebranded in 2012
Rr Relaunched and rebranded in 2012
N Newly launched in 2012/2013
U Unchanged

Business & Financial Review

Introduction

Miton Group plc (formerly known as MAM Funds plc) is the AIM-listed parent company of a fund management group operating through two FSA regulated companies:

- Miton Asset Management Limited; and
- Miton Capital Partners Limited (formerly known as Midas Capital Partners Limited).

We manage investments within:
- eleven open ended funds
- four investment trusts, and
- segregated accounts.

The business now operates under the single Miton brand and has 41 employees working out of offices in Reading, Liverpool and London. Up until December 2012 we operated under the MAM, Miton, Midas and Acuim brands.

Our fund managers seek value for investors without undue regard for indices and benchmarks. They have the flexibility to invest in companies, funds and asset classes that are better placed to preserve value and see it grow over the medium to longer term.

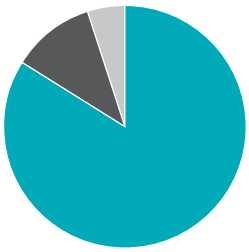
Review of the year

2012 was a busy year for developing our product range and continuing to invest in the business.

In the 2011 Annual Report we set out our strategic priorities and we provide an update on the progress we are making and give a summary of activity in 2012:

We said we would:
- **develop our Miton multi-asset specialisation**
  - In May we launched Miton Global Diversified Income fund with a target yield of 4% investing in a variety of assets and regions
  - In September we relaunched our Worldwide Opportunities fund to prioritise capital growth through investment in closed end and open ended funds
  - In December we relaunched our Total Return fund to deliver a low risk return above LIBOR.
- **develop and grow our equity single strategy fund range**
  - Our UK Smaller Companies fund was launched in December and targets total investment returns over the long term by investing in smaller UK quoted companies
  - Our US Opportunities fund will be launched in the first quarter of 2013 focusing on a portfolio of US listed companies within the Russell 3000 multi cap universe
  - Our UK Value Opportunities fund will also be launched in the first quarter of 2013 to deploy a proven methodology for capitalising on a value portfolio of UK listed companies.
- **reverse the trend in Miton Capital (formerly Midas Capital) fund flows**

We have not yet stemmed the outflow of funds from Liverpool. Nevertheless good progress has been made and outflows have slowed.
  - significant changes to the investment approach of the two main funds have had good results in terms of improved investment returns and lower volatility
  - both the management company, Miton Capital Partners Limited and the funds: CF Miton Diversified Growth and CF Miton Distribution fund have been rebranded
  - the funds are now risk-rated, providing solutions for a growing area of retail investment.



2012 AUM by type of client

- 84% OEICs
- 11% Investment trusts
- 5% Segregated Funds

	Opening AUM 1 Jan 2012 £m	Inflows £m	Outflows £m	Net Flows £m	Other including markets £m	Closing AUM 31 Dec 2012 £m
Funds	1,457	412	(410)	2	36	1,495
Investment trusts	127	60	-	60	19	206
Other	82	2	(1)	1	2	85
Total	1,666	474	(411)	63	57	1,786

Business & Financial Review continued

New Strategies for 2013	Managers	Launch Date
Equity Funds		
CF Miton US Opportunities	Nick Ford/Hugh Grieves	Mar 13
CF Miton UK Value Opportunities	George Godber/Georgina Hamilton	Mar 13
Investment Trust		
Henderson Fledgling Trust plc to be renamed Miton Income Opportunities Trust plc	Gervais Williams/Martin Turner	Mar 13*

* Miton Capital Partners Limited became the Investment Manager on 1st March 2013

During 2012 we also said we would:

- **clarify and focus our product offering and branding**
  - In December we rebranded our fund range under the single Miton brand
  - In January 2013 we renamed the company Miton Group plc
  - The changes to our fund range provide further clarification and focus to our product offering.
- **identify and develop complementary business development opportunities**
  - During the year we examined a number of opportunities
  - One of these was successfully completed after the end of the year when in February it was announced Gervais Williams and Martin Turner would be taking on the management of the Henderson Fledgling Trust £80m portfolio
  - Before proceeding with a particular opportunity we apply a strict single requirement: that it must be able to generate sustainable additional value for shareholders over the medium to long term
  - Opportunities continue to be evaluated as they arise.
- **communicate effectively with shareholders, IFAs, advisers and their ultimate clients**
  - We continue to develop our core messages and upgrade our communications with the outside world
  - Our Customer Relationship Management (CRM) system is enabling us to focus more effectively our marketing and communication effort on relevant contacts
  - In 2012 we added to our marketing team and significantly increased the quantity and quality of our communications.

Last year we also outlined our objectives for differentiating our business:

- **to develop a distinctive investment philosophy**
  - In this Annual Report we explain what is distinctive and different about the way Miton manages investment portfolios for its clients. See pages 6 and 7.
- **to make our communication with existing clients, potential investors and others relevant and timely**
  - We explain above how we have been improving our communication activities
  - We will continue to develop and improve in this area using both traditional and more innovative methods of reaching our clients and the outside world.
- **to maintain rigorous standards of compliance and risk management**
  - We continue to be vigilant to ensure high standards are maintained
  - Specific procedures to prevent and detect any non-compliance are regularly reviewed and upgraded to include the very latest regulations and developments.
- **delivering high levels of service for our customers in order to build relationships**
  - Our CRM system allows us to provide a more tailored service for intermediaries and for the ultimate investor
  - We can also identify those advisors and investors who are likely to benefit from our product range.

Financial review

We are pleased that the Group's Adjusted Profit increased by over 8% to £3.9m for the year ended 31 December 2012. After expensing amortisation of £3.0m, profit before tax was £913,000, compared with a loss before tax of £427,000 in 2011.

	2012 £m	2011 £m
Net revenue	**11.6**	11.2
Administrative expenses	**(7.0)**	(6.7)
Share based payments	**(0.7)**	(0.7)
Net interest	**–**	(0.2)
Adjusted Profit	**3.9**	3.6
Exceptional charges	**–**	(1.0)
Amortisation	**(3.0)**	(3.0)
Profit/(Loss) before Tax	**0.9**	(0.4)

Key points:

- Net revenues after fees and commission expense increased by 3.6%
- Administrative expense increased by 4.5%. Three fund managers were recruited just before the end of the year and therefore account for a small element of the increase
- Adjusted Profit of £3.9m increased by 8.3% over the previous year. Adjusted Profit in 2012 benefited from no interest charge and from the release of provisions no longer required of £228,000 (see note 15, page 50 for more details).

2012 AUM by asset class

- 21% Cash
- 7% UK Bonds
- 7% Global Bonds
- 6% Property
- 27% UK Equities
- 19% Global Equities
- 10% Alternatives
- 3% Resources

Cashflow: Cash generated from operations of £3.6m increased from £2.5m in 2011.

Total cash balances held at the year end as per our Consolidated Balance Sheet on page 35 were £12.0m (2011: £9.9m) of which £5.6m (2011: £3.5m) is considered free cash – analysed as follows:

	£m	£m
Total Group Cash		12.0
less:		
Regulatory capital requirement	3.9	
Regulatory capital contingency	1.5	
Provisions unwinding over 12 months	0.2	
Year end payables in excess of regular working capital	0.8	
		6.4
Estimated free cash		5.6

Other balance sheet items

The balance sheet includes £34.5m of goodwill and £13.1m of intangible assets. An annual review is carried out to assess the value in use of the relevant business assets. In 2012 this was again assessed as being in excess of the combined carrying value and therefore no impairment write-down is required. See notes 8 and 9 on page 48 for more details. The original capitalised cost of the intangible assets is written off over their useful lives resulting in an annual amortisation charge of £3.0m.

Provisions outstanding at the end of the year of £230,000 reduced from the opening balance of £1,332,000 on 1 January as a result of £891,000 being utilised and £228,000 being released as no longer required. Further details are provided in note 15 on page 50.

The Management Equity Incentive scheme (MEI) treasury shares of £4.7m are held in an employee benefit trust pending possible vesting between 2015 and 2019. They are required to be shown as a deduction from total equity funds. Further details are provided in the Remuneration Report on page 29 and in notes 17 – Share Capital and 19 – Share Based Payments. Cumulative retained earnings stand at £24.7m.

Business & Financial Review continued

Principal risks and uncertainties

The Group faces a range of risks originating both externally and from within our fund management business. The Corporate Governance report on page 26 details the Group's approach to internal control and risk management including the Board's responsibilities, the Board's attitude to risk, the role of the Audit Committee and the role and composition of the Risk Committee. Further details are also provided with regard to the relevant procedures adopted within the Group and the processes used by the Board to review and monitor the effectiveness of our internal controls and risk management activities.

The Risk Committee is responsible for identifying, evaluating and managing significant business risks faced by the Group. It has identified the following principal risks to which the Group is exposed and the relevant mitigating factors as described.

Market risk

Market risk arises in relation to the investments held by funds managed by us and the revenue generated from the management charge on the value of those assets. Our funds are invested in a wide range of asset classes under different investment mandates including multi-asset, equity and portfolios of collective investment schemes. Market risk is diversified away from specific market dependencies. To the extent that asset classes behave differently in times of higher volatility, our Assets Under Management and revenues are likely to be less affected than would be the case in a business more focused on a single asset class.

External risks

External risks include those arising from non-adherence to relevant regulations and legislation and any changes as they occur. The Companies Acts, the Financial Services Authority Handbook and the Rules of the Alternative Investment Market of the London Stock Exchange – on which we are listed, are especially relevant. We pay particular attention to comply with all relevant investment, taxation and operational regulatory laws and rules including various reporting requirements. Specific controls, reporting procedures and review processes have been established to prevent, detect and address any non-compliance.

Operational risk

Operational risk is the risk of loss arising from a failure in internal systems, procedures or in outsourced functions. Three fundamental elements of our operational structure are people, information technology and outsourced services. We rely on all our staff for the day-to-day running of the business and seek to attract and retain the best qualified individuals.

The Group is an equal opportunities employer and actively encourages employee involvement at all levels, both through regular employee briefings and by direct access to managers and the directors. Equity share incentives are provided to help retain and incentivise senior employees and directors.

Key priorities for our technology and systems are to maintain operational performance and reliability. The various outsourced services provided are monitored on an ongoing basis and reviewed at regular intervals both internally and through meetings with the relevant organisations. Comprehensive business continuity planning is in place to ensure the ongoing operation of key business functions in the event of normal systems being interrupted. These arrangements are tested at least annually.

Credit risk

The Group is subject to credit risk arising as a result of counterparty exposure in the Group's receivable balances from fund management clients and in relation to the cash balances placed with financial institutions. We monitor closely the creditworthiness of all relevant counterparties both directly and through third-party reports. We have a diversification policy of allocating cash deposits between at least two suitable institutions.

Robert Clarke
Group Finance Director & Director of Operations

15 March 2013

Building a Business with Reach

2011: Build the base

Establish Platform

- Build leadership team
- Strengthen balance sheet
- 'Right size' central functions
- Recruit marketing team
- Introduce CRM system
- Upscale PR

Fund launches

Diverse Income Trust plc
Miton UK Multi Cap Income Fund

New managers

Gervais Williams
Martin Turner

2012: Start the climb

Deepening client relationships and broaden offering

- Become RDR ready
- Merge unviable funds
- Increase reach into IFAs and private client brokers
- Build media profile
- Develop effectiveness of sales channel
- Attract new management talent
- Risk rate two funds

Fund launches

Miton Global Diversified Income
Miton UK Smaller Companies
Rename/relaunch four funds
Two C share issues for Diverse Income Trust plc

New managers

Nick Ford
George Godber
Georgina Hamilton

2013 onwards: Foothills and peaks

Layer sales and new funds to scale up revenues

- Capitalise on unified brand
- Develop new managers and new funds
- Invest in business infrastructure
- Enhance sales team capacity
- Seek new investment trust mandates
- Acquire new fund management talent
- Complementary business or AUM acquisitions
- Additional fund launches

Fund launches

Two funds planned for end Q1:
Miton US Opportunities
Miton UK Value Opportunities

New managers

Hugh Grieves

Questions and answers

"If we are successful in our ambition, we believe that Miton Group plc will have a highly differentiated market position compared with most other fund managers"

What progress was made in 2012?

During the year we have raised the profile of our equity funds with potential customers, in particular through premium performance of both the Diverse Income Trust plc and the Miton UK Multicap Income OEIC. These have delivered amongst the best returns in the UK Income sector whilst the volatility of their portfolios has been amongst the lowest in their sector. Towards the end of the year, we recruited two new teams of fund managers who will launch two new OEICs during the first quarter of 2013.

During 2012, we also stepped up our ability to keep clients better informed about the progress of our funds. In particular, we worked diligently to get our industry database up to date. We introduced a Customer Relationship Management (CRM) system and refined it further during the year so our existing customers and potential customers understand how our funds differ from others.

How are legislative changes such as RDR affecting the Group?

The RDR changes that came into force at the start of 2013 may disrupt the business models of many of our IFA customers. Some have chosen this time to exit the industry, and others to move from charging their customers a commission on transactions to charging fees for their advice. Some IFAs have moved toward taking more control of the asset allocation of their client funds. This has favoured single-strategy equity funds over diversified international funds. Although the majority of our funds are within the diversified international category, many have a history of being highly resilient and some IFAs are using them as a core allocation around which they can allocate to more volatile single strategy funds. Finally, there has been greater attention on the fees that fund managers are charging. We believe that funds without differentiation will be subject to margin pressure. At Miton we believe that our funds and post credit boom strategies will more than justify sustained fees.

How sensitive are the Group's earnings to equity market movements?

The majority of our diversified international funds are very cautiously positioned, given the risk of a market setback. Our single strategy funds, by their nature, have less scope to invest in assets that are insensitive to market movements. However, the stocks they do hold typically are characterised by unusually strong balance sheets, and are selected on the basis that their end markets are continuing to expand. For these reasons the volatility of many of our single strategy portfolios is much less than the market indices. We believe our funds are better positioned than most others for the greater fluctuation in markets beyond the credit boom. As a Group we do not expect to attract subscriptions to our funds as much as many other funds during market rallies, but we are better placed than most at times of market setback in terms of retaining our current investors and in attracting new subscriptions. In contrast to most other fund managers we believe our revenues and earnings are rather less sensitive than others to market moves.

How much cash is the Group generating?

During the year the cash balances in Miton Group increased from £9.9m to £12.0m. The company also generated additional cash including £0.4m that was used to buy Miton Group shares for our ESOP at the depressed levels they were at during last year, and £0.5m that was used to fund the payment of the maiden dividend to shareholders. If these sums are added to the increase in cash balances, they equate to a large part of the Adjusted Profit for the year of £3.9m less the £0.2m release from provisions which had no effect on cash generation in the company in the year.

With £12m of net cash, why is the Board not proposing a larger dividend?

Fund management businesses like ours need to hold regulatory capital to satisfy the regulators that we are well funded even if our business was loss-making. Our regulatory capital amounts to £3.9m. For prudential reasons we add a further £1.5m buffer to this to ensure we are usefully above the regulatory minimum. On top of this we expect to fund our bonus pool of £0.8m shortly and still have unutilised reserves of £0.2m which as they get utilised, will diminish cash balances. We do have surplus cash balances of £5.6m and that is the reason why the board has increased the dividend to shareholders by 12.5% to 0.45p.

But the Board also anticipates that there may be opportunities to use some of these cash balances to acquire additional Assets Under Management that would drive up profitability significantly. For that reason we believe that shareholders will enjoy greater benefit from better utilisation of significant cash balances in the Group in future.

What are the main objectives for Miton Group in 2013?

Now that Miton Group has unified in terms of its brand, it is a good time to be clearer with our clients and potential clients regarding how our funds differ from others. We believe that market trends that have been with us for decades during the credit boom are now changing significantly. Since we had no single strategy funds prior to the arrival of Gervais Williams, the strategies of all our new funds can be crafted to harness the post credit boom market trends coming through. On top of this, the unconstrained positioning of many of our multi-strategy funds has meant that they have been able to position their assets for post credit boom trends too. If we are successful in our ambition we believe that Miton Group plc will have a highly differentiated market position compared with most other fund managers. We have already attracted some interest in our ideas with the strong outperformance of our UK multicap funds along with their relatively low volatility, and through the recruitment of four high profile managers ahead of the launch of their new funds. Ultimately, we can measure the longer term success of achieving our objectives through the scale of new investors who invest in our current funds and their support for our planned new launches. We aim to take market share in 2013.

Board of Directors

Executive Directors

Ian Dighé, 57

Current role
Executive Chairman since appointed on 15 February 2011.

Past roles
Director of Manchester & Exchange Investment Bank, McLeod Russell Holdings Plc, and Head of Corporate Finance at Singer & Friedlander Ltd. In 2000, he led the management buyout of Singer & Friedlander Corporate Finance, which laid the foundation of the Bridgewell Group Plc, where he remained as Deputy Chairman until its sale in August 2007. He formed Matterley in late 2007, a fund management business whose interests were acquired by Charles Stanley Group Plc in September 2009.

Brings to the Board
In excess of 25 years of market experience in the financial services industry and public markets. Drive and vision required to build businesses.

Other commitments
Non-executive director of Strategic Equity Capital Plc and Artemis Alpha Trust Plc and a director of various private companies and charitable trusts.

Gervais Williams, 54

Current role
Managing Director since appointed on 1 March 2011 and Fund Manager of Diverse Income Trust plc, Miton Income Opportunities Trust plc (formally Henderson Fledgling Trust plc), CF Miton UK Multicap Income Fund and CF Miton, UK Smaller Companies Fund.

Past roles
Five years with Throgmorton Investment Management (later part of the Framlington Group), three years with Thornton Investment Management (part of Dresdner Bank) and 17 years with Gartmore Group Ltd, where he was Head of UK Small Companies investing in UK smaller companies and Irish equities.

Brings to the Board
Gervais has been an equity portfolio manager since 1985. He won Investor of the Year as awarded by Grant Thornton at their Quoted Company Awards in both 2009 and 2010. He has sat on two DTI Committees in the quoted small cap sector. In 2010 he wrote and published 'Slow Finance' setting out his investment philosophy for the post credit crisis world. The Diverse Income Trust plc won the Best New Issue Award at the AIC Awards dinner in December 2012.

Other commitments
A member of the AIM Advisory Council, the Board of the Quoted Companies Alliance and recently he has joined the ISFC Advisory Council. The ISFC is the former PLUS markets exchange which has been renamed after being acquired by ICAP plc.

Martin Gray, 61

Current role
Director since 19 May 2010 and lead fund manager of CF Miton Special Situations Fund and CF Miton Strategic Portfolio.

Past roles
Martin began his fund management career in 1979. He established the investment division of a UK authorised company in 1987, becoming a director in 1990. Martin joined Miton Investments as a fund manager and director in 1994 and has been Managing Director of Miton Asset Management Ltd since 1997. He has been responsible for the management of our Strategic Fund since launch in December 1996 and our Special Situations Fund, which launched a year later.

Brings to the Board
Martin has won numerous awards. In 2011, he was an FE Trustnet Alpha Manager for the fourth consecutive year. In 2008 The Daily Telegraph rated Martin as one of its top ten fund managers of the decade.

Graham Hooper, 53

Current role
Distribution Director since appointed on 15 February 2011.

Past roles
Graham established himself through his role as Marketing Director of Chase de Vere over 18 years, culminating in the sale to Bank of Ireland in 2000. Following the acquisition of Holden Meehan by Bradford and Bingley in 2003, he joined the Commercial Board. From 2006 to 2008 Graham was Marketing Director of AWD Group plc. He subsequently set up his own consultancy, working with a number of major financial services organisations including M&G, Standard Life, Chartwell, Midas Capital Partners, Neptune, HM Treasury's Giving Campaign and the Conservative Party on financial services policy. He was a non-executive director of Liontrust Asset Management Plc until 31 March 2011.

Brings to the Board
Graham brings nearly 30 years of financial services industry experience in distribution, sales, marketing and PR. He won IFA of the Year and Best Investment IFA on multiple occasions whilst at Chase de Vere and was the most mentioned press commentator for four consecutive years.

Other commitments
Acting chairman of allmyplans.com.

Robert Clarke, 55

Current role
Group Finance Director and Director of Operations since appointed on 5 December 2011.

Past roles
In the fund management arena he was Chief Executive of Witan Investment Trust Plc from 2008 to 2010 and was previously with Majedie Investments PLC for 12 years, starting as Finance Director before becoming Chief Executive. Since qualifying as a Chartered Accountant in 1981, Robert has also held Finance Director roles with Hoare Govett Securities Ltd and Alwen Hough Johnson Ltd. During 2011 Robert provided consultancy and interim management services to Martin Currie Investment Management Limited.

Brings to the Board
Chartered Accountant with strong financial and operational experience gained through a variety of senior roles in the financial services sector over 27 years.

Non-Executive Directors

Lord Wade of Chorlton, 80

Current role
Deputy Chairman since appointed on 7 March 2008 and Chairman of the Nominations Committee and a member of the Audit and Remuneration Committees.

Past roles
Following his appointment to the House of Lords in 1990, Lord Wade sold most of his farming and cheese making interests, the focus of his early career.

Brings to the Board
Wealth of commercial experience extending over 60 years.

Other commitments
Chairman of Rising Stars Growth Fund Limited, Chairman of RockTron Ltd and Chairman of the International Open Exchange Ltd and of Wild & Son (Mollington) Ltd. Involved in a number of North West initiatives covering innovation and technology. He is a commercial adviser to Davies Wallis Foyster and Jones Lang Lasalle. He is a member of the House of Lords Science and Technology Select Committee.

Nicholas Hamilton, 63

Current role
Appointed a Non-Executive Director on 20 July 2005, is Senior Independent Director and Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees.

Past roles
Qualified with Deloitte before becoming Head of Corporate Finance at stockbrokers Schroder Securities and subsequently Carr Kitcat & Aitken. He became a Non-Executive Director of listed Claremont Garments (Holdings) Plc, a leading ladieswear supplier to Marks & Spencer, in 1991 where in 1994 he became Executive Group Finance Director. In 1998 he launched his own consultancy business as part of which he is and has been a director of a number of public and private companies.

Brings to the Board
Fellow of the Securities Institute and qualified Chartered Accountant with extensive strategic, commercial and financial experience gained over 40 years.

Other commitments
Working director of Metzger Business Search Limited and director/consultant to a number of ventures covering battery electric vehicles, road safety, product innovation and health & safety.

Katrina Hart, 38

Current role
Non-Executive Director since appointed on 23 February 2011 and Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees.

Past roles
Following six years working in corporate finance with ING Barings and Hawkpoint Partners, Katrina moved into equity research with HSBC, covering the General Financials sector. Latterly, she headed up the team at Bridgewell Group plc and Canaccord Genuity, consistently achieving a top three ranking in the annual Thomson Extel and FT Starmine independent surveys.

Brings to the Board
14 years' experience in the City analysing, advising and commentating on a broad range of businesses operating in the wealth and fund management sectors. During this period, she accumulated an in-depth understanding of the industry dynamics and operational drivers of fund management and worked very closely with some of the most respected companies in the sector.

Company Secretary

Roger Bennett, 50

Current role
Company Secretary since appointed on 1 September 2007 and Chief Risk Officer for the Group.

Past roles
Qualified as Chartered Accountant with Spicer & Oppenheim. Group Financial Controller of Octavian Group Ltd, a Lloyd's of London underwriting agency. Was Finance Director of Christows Limited a regulated stockbroker and private client investment and fund management business from 1995 to 2001. In 2002, he was a founder member and Finance Director of the company that became the parent company of the present group.

Brings to the Board
Broad based financial services experience gained through working at the client, intermediary and product provider levels.

Directors' Report

The directors present their Report and the audited accounts of Miton Group plc.

Principal activities and review of business

The Directors' Report includes commentary on the business activities of the Group contained within the Chairman's Statement and Business Review and is accompanied by the Corporate Governance section and Directors' Remuneration Report. The Group's only activity over the period was fund management.

Results and dividends

The profit for the year was £1,066,000 (2011: £317,000) as set out in the Consolidated Statement of Comprehensive Income on page 33. The directors recommend the payment of a final dividend of 0.45p (2011: 0.40p) per share payable on 20 May 2013 to shareholders on the share register as at 2 April 2013.

Directors and their interests

The directors during the year and at 31 December 2012 and their interests in the share capital of the Company, which are all beneficially held, are as follows:

	31 December 2012 Ordinary 0.1p shares	1 January 2012 Ordinary 0.1p shares
Ian Dighé	**909,091**	909,091
Robert Clarke	**261,011**	261,011
Martin Gray	**1,945,238**	1,945,238
Graham Hooper	**1,142,231**	1,142,231
Gervais Williams	**8,787,879**	8,787,879
Nicholas Hamilton	**–**	–
Katrina Hart	**80,416**	80,416
Lord Wade	**891,386**	891,386

The total shares held by the directors, excluding equity incentives, is 14,017,252 (9.45% of issued share capital). Details of the directors' options to subscribe for shares in the Company are disclosed in the Directors' Remuneration Report.

Substantial interests

As at 14 March 2013, the Company had received notification of the following substantial interests in the share capital of the Company.

Shareholder	Ordinary 0.1p shares	%
MAM Funds plc Employee Benefit Trust	16,863,572	11.29
Blackrock Investment Management	14,364,281	9.61
Ruffer LLP	13,165,255	8.81
Axa Investment Managers	12,121,212	8.11
Gervais Williams (director)	8,787,879	5.88
F&C Management	7,358,356	4.93
SFM UK Management	5,458,572	3.65
Schroder Investment Management	4,545,455	3.04

Disclosure of information to the Auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the Auditors in connection with preparing its report, of which the Auditors are unaware. Having made enquiries of fellow directors and the Group's Auditors, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the Auditors are aware of that information.

Auditors

A resolution will be proposed at the Annual General Meeting for shareholders to reappoint Ernst & Young LLP as Auditors of the Company.

Creditor payment policy

It is the Group's policy to obtain as commercially advantageous terms as possible for all business transactions. The Group agrees with its suppliers the terms on which business will be transacted, and it is the Group's policy to abide by those terms.

At 31 December 2012, the Group had an average of 30 days (2011: 30 days) purchases owed to trade creditors.

General Meeting

At the Annual General Meeting to be held on 15 May 2013, the directors will seek shareholder approval for the resolutions referred to below. The directors believe that the passing of these proposed resolutions is in the best interests of the Company and its shareholders as a whole and recommend that shareholders give them support by voting in favour of the resolutions, as they intend to do themselves in respect of their own beneficial holdings.

Re-election of directors

Lord Wade of Chorlton has been a director since the 2010 Annual General Meeting. In accordance with the Company's Articles of Association and best practice, he will be retiring as a director at the meeting and offering himself for election. The biography of Lord Wade is set out on page 23 of the Annual Report.

Other business will be as follows:

- The reappointment of Ernst & Young LLP as Auditors.
- Authority for the directors to agree the Auditors' remuneration.
- Authority for the directors to pay a dividend of 0.45p per Ordinary 0.1p share in the Company.
- Authority for the directors to allot ordinary shares up to an aggregate nominal amount of £49,802, being approximately one-third of the issued ordinary share capital of the Company, without having to obtain prior approval from shareholders on each occasion.
- Authority for the directors to allot ordinary shares up to an aggregate nominal amount of £49,802, being approximately one third of the issued ordinary share capital of the Company, via a validly declared rights issue.
- Authority for the directors to make market purchases of the Company's shares up to an aggregate nominal amount of £7,470, being approximately 5% of the issued ordinary share capital of the Company.
- Authority to allot shares for cash as if pre-emption rights did not exist for shareholders under Section 570 of the Companies Act 2006. The general disapplication in respect of equity securities being issued for cash otherwise than to existing shareholders in proportion to their existing shareholdings is limited to a nominal value of £7,470, being equal to 5% of the total issued ordinary share capital, without first being required to offer such shares to existing shareholders and the disapplication will last until 17 August 2014.
- Approval of the Directors' Remuneration Report set out on pages 29 to 30. No entitlement of any director to remuneration is conditional on the resolution being passed.

By order of the Board

Roger Bennett
Company Secretary

15 March 2013

Corporate Governance

Compliance with the UK Corporate Governance Code

Being AIM listed, the Group is exempt from the provisions of the UK Corporate Governance Code (the "Code"). As the Group is committed to the principles of good governance set out in the Code, it is the policy of the Board to comply with the Code's main provisions in so far as it is possible and appropriate to the Group's size.

Board composition

During the year there were no changes to the composition of the Board. From his appointment on 15 February 2011 Ian Dighé has chaired the Board in his capacity as Executive Chairman and acted as Chief Executive. At the end of the year the Board comprised five executive directors and three independent non-executive directors as set out on page 23. Nicholas Hamilton continues as Chairman of the Audit Committee and Senior Independent Director.

The composition of the Audit, Remuneration and Nomination Committees is set out below.

Board responsibilities and operation

The Board meets at least six times a year. The Board deals with all aspects of the Company's affairs including setting and monitoring strategy, reviewing performance, ensuring adequate financial resources are in place and reporting to shareholders. The Board reserves these and other specific matters for its own decision. Operational decisions are delegated to the executive directors and the senior management team. Members of the Board are supplied in a timely manner with information in a form and of a quality to enable them to make informed decisions. The Company's directors are required to stand for re-election every three years.

New directors are provided with all relevant information regarding the Group's operations, are given the opportunity to meet with key executives prior to appointment and offered formal training if required. Directors are generally provided with training on specific technical issues as appropriate.

Board and Committee attendance

The following table summarises the attendance of directors at Board meetings during the year. Minutes are circulated as soon as possible after the meetings.

Date	Scheduled Board	Remuneration Committee	Audit Committee	Nomination Committee
Ian Dighé	7/7	–	–	–
Robert Clarke	7/7	–	–	–
Martin Gray	7/7	–	–	–
Graham Hooper	7/7	–	–	–
Gervais Williams	7/7	–	–	–
Nicholas Hamilton	7/7	7/7	3/3	–
Katrina Hart	7/7	7/7	2/3	–
Lord Wade	7/7	4/7	3/3	–

Audit Committee

The Audit Committee of the Board is chaired by Nicholas Hamilton and its membership comprises the Non-Executive Directors. The Committee has adopted formal terms of reference which are published on the Group's website. The Committee meets not less than three times a year to review the scope and findings of the Auditors' work, the interim and annual reports prior to their publication, the confirmation and application of the Group's accounting policies and any changes to financial reporting requirements. The Committee is also responsible for recommending the appointment, reappointment or removal of the external Auditors.

The Audit Committee also plays an important part in regularly considering the Group's risk profile and any significant matters arising from the Risk Committee. It regularly reviews the Group's systems of internal control which are described below.

The Group's Auditors may provide non-audit services, primarily in the area of taxation advice. Each assignment is reviewed and costed in isolation and the directors do not therefore believe the Auditors' independence is compromised.

Remuneration Committee

The Group's Remuneration Committee is chaired by Katrina Hart and comprises the non-executive directors. The executive directors make recommendations to the Committee for its consideration, following which the Committee recommends to the full Board, within agreed terms of reference, on the Company's framework of executive remuneration and its cost. The Board itself determines the remuneration of the non-executive directors. Further details of the Company's policies on remuneration and service contracts are given in the Directors' Remuneration Report on pages 29 to 30.

Nomination Committee

For director appointments a Nomination Committee, chaired by Lord Wade of Chorlton and comprising the non-executive directors, is formed to make recommendations to the Board. Once a shortlist has been established by the Committee, the Board meets candidates to assess their suitability. The Nomination Committee did not meet in the period under review.

Risk Management and Internal Control

The directors acknowledge that they are responsible for the Group's system of internal control and for reviewing its effectiveness. This review process is regularly updated and reviewed by the full Board. The system is designed to manage rather than eliminate the risk of failure to achieve the Group's strategic objectives and can only provide reasonable, not absolute, assurance against material misstatement or loss.

In accordance with the guidance of the Turnbull Committee on internal control, the Risk Committee identifies, evaluates and manages the significant risks faced by the Group. The Risk Committee is chaired by the Company Secretary who is also the Chief Risk Officer. The Committee members also include the Group Finance Director/Director of Operations, Head of Compliance and Head of Fund Operations.

The Group's operational risk management process and internal control procedures include the following:

- Management structure: Authority to operate the business is delegated to the executive directors who report to the Board as a whole. The appointment of executives to the most senior positions within the Group requires the approval of the Board. Functional, operating and financial reporting standards are established across the Group as a whole to establish common authorisation levels, control procedures and Group accounting policies.
- New regulations and guidelines: these are noted and incorporated within the Group's overall compliance procedures.
- Identification and evaluation of business risks: The major financial, commercial, legal, regulatory and operating risks within the Group are identified through reporting procedures. The Risk Committee evaluates these risks to ensure that they are being effectively managed and appropriately mitigated. Its findings are regularly reported to and reviewed by the Board.
- Information and financial reporting system: The Group's comprehensive planning and financial reporting procedures include detailed operational budgets for the year ahead and a three-year rolling business plan. The Board reviews and approves these budgets and plans on an annual basis. Performance is monitored against these plans and relevant action is taken through the monthly reporting of key performance indicators and updated forecasts for the year.
- Investment performance: The Group's only activity is fund management and the Board reviews performance against appropriate risk related parameters for all of the collective investment funds managed by the Group.
- Capital project appraisal: For capital expenditure beyond items included within the annual budgets, detailed written proposals are submitted to the Board. Reviews are carried out during the capital project to monitor expenditure and any cost overruns are investigated.
- Compliance with regulations: The Compliance department undertakes reviews and makes recommendations to the Board with regard to controls in the course of its duties to assess and monitor compliance with regulations set by the Group's regulators.

The key processes used by the Board to review the effectiveness of the systems of internal control include the following:

- Review by the Audit Committee of the Group's systems of internal control;
- Review of the Group's risk assessment and Internal Capital Adequacy Assessment Process (ICAAP) reports at each Board meeting;
- Review of detailed management information, which is prepared on a monthly basis;
- The Chairman holds regular meetings with all key operating department heads and the executive directors to discuss operational issues;
- A compliance monitoring team undertakes reviews of detailed control processes on a regular basis and reports to the Board on the outcome of such reviews;
- Insurance is important in managing risks across the Group. The Board is informed of insurance renewal terms and any outstanding claims; and
- The Senior Executive Management team meets regularly to consider operational matters and business development issues.

Dialogue with shareholders

The directors are available to enter into dialogue with shareholders to develop an understanding of their views. Meetings are held with major shareholders after the announcement of both the full year and half year results and at other appropriate times during the year. The non-executive directors are informed of any significant issues raised. Shareholders have the opportunity to attend and vote at the Annual General Meeting, during which the Board is available to discuss issues affecting the Group.

Board evaluation

The composition of the Board has not changed in the period covered by this report. The Board completed an appraisal of its performance and that of individual directors during the period. The Board is content with the mix and balance of skills of its members.

Corporate Governance continued

Going concern

The Business Review sets out the Group's business activities, financial position and factors likely to affect its future development, performance and position. Additionally, it lays out the Group's objectives, policies and processes for managing the relevant key risks.

The Group has sufficient financial resources and contracts with a number of customers and suppliers such that the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and accounts.

Preparation of accounts

The directors are responsible for preparing the Group's accounts for presentation to shareholders. Details of the responsibilities of the directors are set out within their statement on page 31.

Internal Audit

The Group has a strongly developed system of internal control. In addition, two subsidiaries are regulated by the FSA and, as a result, are subject to an ongoing monitoring process carried out by the Group's Compliance department and Risk Committee. Accordingly, the directors do not believe that there is currently a need for an Internal Audit function over and above the existing compliance regime. This position will continue to be reviewed at least annually.

By order of the Board

Ian Dighé
Executive Chairman

15 March 2013

Directors' Remuneration Report

Committee constitution

The members of the Remuneration Committee at the year end were Katrina Hart (Chairman), Nicholas Hamilton and Lord Wade. Each member of the Committee is a non-executive director who exercises independent judgement and has no conflict of interest. The Committee reviews matters of remuneration policy for executive directors of the Company and other senior staff.

Remuneration policy

As a specialist financial services group, Miton Group plc (formerly known as MAM Funds plc) seeks to recruit, motivate and retain suitable directors and senior executives. To achieve this, the Remuneration Committee aims to provide a competitive package of incentives and rewards. The objective is to align personal reward with enhanced shareholder value over both the short and long term. Remuneration includes basic salary and bonus, together with equity incentive plans, such as the Management Equity Incentive (MEI), the Long-Term Incentive Plan (LTIP) the Management Incentive Plan (MIP) and the Enterprise Management Incentive (EMI).

Remuneration for non-executive directors is determined by the Board after comparison with industry standards and peers.

The Group pays into separate defined contribution money purchase pension schemes for executive directors, to which they may also contribute via salary sacrifice. Other benefits offered to executive directors include the provision of life insurance and health care benefits.

Share schemes and bonuses

The Group adopts a policy of granting options to directors and managers to encourage equity participation and align interests with shareholders. Unapproved options are granted on a discretionary basis.

The Remuneration Committee undertook a significant review of the bonus structure operating throughout the Group for the 2012 financial year. The Committee has borne in mind the following key principles in addressing issues relating to remuneration and incentives for directors and senior staff:

First, that the interests of directors and senior executives are closely aligned with those of the shareholders.

Secondly, that remuneration and incentive arrangements:

- are in keeping with evolving best practice on executive pay
- are transparent and fit for disclosure
- are meaningfully linked to the key drivers of value in the business
- do not encourage excessive risk taking
- focus on longer term, consistent performance
- reflect the macro-economic environment and Miton's performance in relation to that of our peer group.

Bonus payments made under the scheme include deferred equity vesting over periods of three years for amounts in excess of £30,000.

Management Equity Incentive (MEI)

On 29 June 2012 the Group granted Robert Clarke an equity incentive over 2,000,000 ordinary shares of 0.1 pence per share issued as set out below:

- Half of the shares have a strike price of 33 pence per share and will vest at any time during the period commencing on the date on which the Group publishes its preliminary results for the year ending 31 December 2014 and ending on the date 40 days after the date on which the Group publishes its preliminary results for the year ending 31 December 2018; and
- The other half of the shares have a strike price of 50 pence per share and will vest at any time during the period commencing on the date on which the Group publishes its preliminary results for the year ending 31 December 2015 and ending on the date 40 days after the date on which the Group publishes its preliminary results for the year ending 31 December 2018.

The equity incentive is subject to certain good leaver/bad leaver provisions. Shares were subsequently purchased in the market to hedge this award and are held by an employee benefit trust pursuant to the vesting conditions. The closing middle market price on 28 June 2012, being the last day prior to the announcement of the proposals, was 19.3 pence per ordinary share. On 14 April 2011, the Group granted Ian Dighé, Gervais Williams and Graham Hooper, in equal share, an equity incentive over 13,117,572 ordinary shares of 0.1 pence per share on the same terms as set out above.

Directors' Remuneration Report continued

Management Incentive Plan

Following shareholder approval on 3 June 2009, the Board adopted the Remuneration Committee proposition for a new divisional performance based MIP. The MIP is designed to incentivise executive directors and senior managers of the business. The aggregate of all MIP awards must not exceed options over 10.2m 0.1p ordinary shares. During 2012, awards were made over Nil (2011: 800,000) options to subscribe for 0.1p ordinary shares. Of these awards, no options to subscribe for 0.1p ordinary shares (2010: Nil) were allocated to executive directors in the year. Options held by directors were as detailed below:

	Management Incentive Plan		
	Exercise price	**2012 Options over 0.1p ordinary shares**	2011 Options over 0.1p ordinary shares
Martin Gray	0.1p	**550,000**	550,000
	10.0p	**600,000**	600,000
	25.0p	**1,000,000**	1,000,000

Directors' interest in options

No director has options to subscribe for ordinary shares other than the MIP options detailed above.

External directorships

Executive directors may not accept external directorships without the prior approval of the Board. Group policy is that additional remuneration which arises as part of an executive's duties within the Group, for example, from an in-house or client fund, would be repayable to the Company. Remuneration accruing to an approved non-executive directorship which arises from outside the Group is for the executive's account.

Service contracts

The service contracts and letters of appointment of the directors as at 31 December 2012 include the following terms:

	Date of current contract	Notice period (months)
Non-executive directors		
Nicholas Hamilton	20 July 2005	See below
Lord Wade of Chorlton	7 March 2008	3
Katrina Hart	23 February 2011	3
Executive directors		
Martin Gray	23 October 2007	6
Gervais Williams	14 February 2011	12
Ian Dighé	15 February 2011	12
Graham Hooper	1 March 2011	12
Robert Clarke	5 December 2011	12

The letter of appointment for Nicholas Hamilton, who was appointed during 2005, does not contain any specific termination provisions over and above those set out in the Companies Act.

Emoluments by individual director

The remuneration of the directors during the period was as follows:

	Fees and salary £000	Bonus £000	Pension £000	**2012 Total £000**	2011 Total £000
Executive directors					
Ian Dighé	150	24	11	**185**	135
Gervais Williams	150	24	11	**185**	129
Graham Hooper	150	24	11	**185**	135
Robert Clarke	150	24	11	**185**	12
Tony Moore	–	–	–	**–**	334
Martin Gray	150	150	11	**311**	304
Non-executive directors					
Lord Wade	35	–	–	**35**	35
Nicholas Hamilton	42	–	–	**42**	42
Katrina Hart	40	–	–	**40**	33
Total	867	246	55	**1,168**	1,159

Katrina Hart
Chairman Remuneration Committee
15 March 2013

Statement of Directors' Responsibilities in Relation to the Group Financial Statements

The directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

Under Company Law, the directors must not approve the Group financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Group for that period. In preparing the Group financial statements, the directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- make judgements and estimates that are reasonable and prudent.

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

Independent Auditors' Report to the members of Miton Group plc (formerly known as MAM Funds plc)

We have audited the financial statements of Miton Group plc (formerly MAM Funds plc) for the year ended 31 December 2012 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Statement of Cash Flows, and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the 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 31, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

Other matter

We have reported separately on the parent company financial statements of Miton Group plc (formerly MAM Funds plc) for the year ended 31 December 2012.

Amarjit Singh (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

15 March 2013

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2012

	Notes	2012 £000	2011 £000
Revenue		**22,333**	21,423
Fees and commission expense		**(10,751)**	(10,244)
Net revenue		**11,582**	11,179
Administration expenses		**(7,014)**	(6,666)
Share-based payment	19	**(712)**	(701)
Amortisation of intangibles	8	**(2,974)**	(2,974)
Exceptional operating expense	3c	**–**	(773)
Operating profit from Continuing Operations	3	**882**	65
Exceptional loss on restructuring and financing	17c	**–**	(325)
Finance revenue		**31**	3
Finance costs		**–**	(170)
Profit/(loss) for the year from Continuing Operations before taxation		**913**	(427)
Taxation	6	**153**	501
Profit for the year from Continuing Operations after taxation		**1,066**	74
Discontinued Operations			
Profit for the year from Discontinued Operations		**–**	243
Profit for the year attributable to equity holders of the parent		**1,066**	317
		pence	pence
Earnings per share			
— Basic and diluted	7a	**0.80**	0.25
Earnings per share from Continuing Operations			
— Basic and diluted	7b	**0.80**	0.06

No statement of total recognised gains and losses has been presented as there are no gains or losses other than those shown above.

The notes on pages 37 to 58 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2012

	Share Capital £000	Share Premium £000	Treasury Shares £000	MEI Treasury Shares £000	Warrant Reserve £000	Capital Redemption Reserve £000	Creditors Reserve £000	Retained Earnings £000	Total £000
At 1 January 2011	70	24	(52)	–	239	5,527	799	28,068	34,675
Profit for the year	–	–	–	–	–	–	–	317	317
Placing shares issued	61	19,939	–	–	–	–	–	–	20,000
Cost of share issue	–	(513)	–	–	–	–	–	–	(513)
Exercise of warrants	2	239	–	–	(239)	–	–	–	2
Redemption of preference shares	–	–	–	–	–	6,035	–	(6,035)	–
Sale of treasury shares	–	–	52	–	–	–	–	–	52
Shares issued to Management Equity Incentive (MEI)	13	4,283	–	(4,296)	–	–	–	–	–
Shares issued on exercise of options	1	308	–	–	–	–	–	(296)	13
Share-based payments	–	–	–	–	–	–	–	701	701
Deferred tax direct to equity	–	–	–	–	–	–	–	48	48
Transfer from Creditors Reserve	–	–	–	–	–	–	(432)	432	–
At 1 January 2012	**147**	**24,280**	**–**	**(4,296)**	**–**	**11,562**	**367**	**23,235**	**55,295**
Profit for the year	–	–	–	–	–	–	–	1,066	1,066
Shares purchased for Management Equity Incentive (MEI)	–	–	–	(398)	–	–	–	–	(398)
Shares issued on exercise of options	1	314	–	–	–	–	–	(248)	67
Share-based payments	–	–	–	–	–	–	–	712	712
Deferred tax direct to equity	–	–	–	–	–	–	–	81	81
Transfer from Creditors Reserve	–	–	–	–	–	–	(367)	367	–
Dividends	–	–	–	–	–	–	–	(535)	(535)
At 31 December 2012	**148**	**24,594**	**–**	**(4,694)**	**–**	**11,562**	**–**	**24,678**	**56,288**

Further information relating to Reserves is shown in note 20 to the financial statements.

The notes on pages 37 to 58 form part of these financial statements.

Consolidated Balance Sheet

as at 31 December 2012

	Notes	2012 £000	2011 £000
Non-current assets			
Goodwill	8	**34,544**	34,544
Intangible assets	8	**13,068**	16,042
Property and equipment	10	**94**	148
		47,706	50,734
Current assets			
Trade and other receivables	12	**1,638**	1,589
Income tax receivables		**–**	60
Cash and cash equivalents	13	**11,951**	9,941
		13,589	11,590
Total assets		**61,295**	62,324
Current liabilities			
Trade and other payables	14	**1,670**	1,583
Income tax payable		**638**	446
Provisions	15	**230**	1,332
		2,538	3,361
Non-current liabilities			
Deferred tax liabilities	6	**2,469**	3,651
Provisions	15	**–**	17
		2,469	3,668
Total liabilities		**5,007**	7,029
Net assets		**56,288**	55,295
Equity			
Share capital	17	**148**	147
Share premium		**24,594**	24,280
MEI treasury shares	17b	**(4,694)**	(4,296)
Capital redemption reserve	20	**11,562**	11,562
Creditors reserve	17d	**–**	367
Retained earnings		**24,678**	23,235
Total equity		**56,288**	55,295

Ian Dighé
Executive Chairman

15 March 2013

The notes on pages 37 to 58 form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2012

	Notes	2012 £000	2011 £000
Operating activities			
Profit for the year		**1,066**	317
Adjustments to reconcile profit to net cash flow from operating activities:			
Tax on Continuing Operations	6a	**(153)**	(501)
Net finance (revenue)/cost		**(31)**	167
Depreciation	10	**78**	77
Amortisation of intangible assets	8	**2,974**	2,974
Share-based payment		**712**	701
Decrease/(increase) in trade and other receivables		**38**	(64)
Increase/(decrease) in trade and other payables		**26**	(939)
Movement in provisions	15	**(1,119)**	(567)
Exceptional loss on restructuring and financing		**–**	325
Cash generated from operations		**3,591**	2,490
Income tax paid		**(695)**	(1,371)
Net cash flow from operating activities		**2,896**	1,119
Investing activities			
Interest received		**31**	3
Purchase of property and equipment	10	**(24)**	(100)
Purchase of intangible assets	8	**–**	(26)
Proceeds from disposal of treasury shares		**–**	52
Net cash flow from investing activities		**7**	(71)
Financing activities			
Purchase of treasury shares		**(425)**	–
Proceeds from share issue		**67**	20,063
Costs of share issue		**–**	(513)
Interest paid		**–**	(1,155)
Repayment of borrowings		**–**	(17,584)
Early redemption payment		**–**	(325)
Dividends paid		**(535)**	–
Net cash flow from financing activities		**(893)**	486
Increase in cash and cash equivalents		**2,010**	1,534
Cash and cash equivalents at the beginning of the year		**9,941**	8,407
Cash and cash equivalents at the year end	13	**11,951**	9,941

The notes on pages 37 to 58 form part of these financial statements.

Notes to the Consolidated Financial Statements

At 31 December 2012

1. Authorisation of financial statements and statement of compliance with IFRS

The financial statements of Miton Group plc (formerly known as MAM Funds plc) and its subsidiaries (the "Group") for the year ended 31 December 2012 were authorised for issue by the Board of directors on 15 March 2013 and the balance sheet was signed on the Board's behalf by Ian Dighé. Miton Group plc (formerly known as MAM Funds plc) is a public limited company incorporated and domiciled in England and Wales. The Company's ordinary shares are traded on AIM.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 December 2012.

2. Accounting policies

Basis of preparation

The accounts have been prepared on a going concern basis as the directors consider that for the foreseeable future the Group will be able to meet its liabilities as they fall due.

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

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

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which have been measured at fair value. The consolidated financial statements are presented in sterling and all values rounded to the nearest thousand pounds (£000) except when otherwise indicated.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2012, and are consistent with those of the previous financial year.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Miton Group plc (formerly known as MAM Funds plc) and its subsidiaries as at 31 December each year.

All intra-Group balances and transactions, income and expenses and profit and losses from intra-Group transactions are eliminated in full.

Subsidiaries are consolidated from the date of acquisition when the Group obtains control and cease to be consolidated from the date on which control is transferred out of the Group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Group has control. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights; currently exercisable or convertible potential voting rights; or by way of contractual agreement.

Functional currency

The functional and presentation currency of Miton Group plc (formerly known as MAM Funds plc) and its subsidiaries is the pound sterling (£) except for Miton (Hong Kong) Limited, whose functional currency is the Hong Kong dollar.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, is stated net of value added tax and is earned within the United Kingdom and Hong Kong as follows:

Notes to the Consolidated Financial Statements continued

At 31 December 2012

2. Accounting policies continued

Fund Management

Fund management revenue represents management and advisory fees for the provision of fund management and investment management services. The following specific recognition criteria have been adopted:

(i) Commission and fees

Commission receivable is recognised in the Statement of Comprehensive Income when the services are performed. Portfolio and other management advisory and service fees are recognised in line with applicable service contracts evenly over the period in which the service is provided.

(ii) Performance fees

Performance fees are recognised on the date of entitlement in accordance with the management contract.

Segmental Reporting

The group has one revenue stream, fund management fees, which are derived almost entirely from Europe (98% Europe; 2% Hong Kong).

Discontinued Operations

In the Consolidated Statement of Comprehensive Income for the comparable period of the previous year, income and expenses from Discontinued Operations are reported separately from income and expenses from continuing activities down to the level of profit after tax. The resulting profit after tax is reported separately in the Statement of Comprehensive Income.

Interest income

Interest income represents bank interest receivable on the Group's cash balances and is recognised as it is earned over the term of the deposit.

Goodwill

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purposes of impairment testing, goodwill is allocated to the related cash-generating units monitored by management, usually at business segment level. Where the recoverable amount of the cash-generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the Statement of Comprehensive Income. The carrying amount of goodwill allocated to a cash-generating unit is taken into account when determining the gain or loss on disposal of the unit, or an operation within it.

Intangible assets

Intangible assets acquired separately are capitalised at cost and those identified in a business acquisition are capitalised at fair value as at the date of acquisition on the basis set out below. Following initial recognition, the carrying amount of an intangible asset is its cost less any accumulated amortisation and any accumulated impairment losses. Intangibles with a finite life have no residual value and are amortised on a straight-line basis over their expected useful lives as follows:

- Intangible assets arising on acquisition — 8 to 10 years
- Computer software — 3 to 4 years

Intangible assets are tested for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable and at least annually.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any impairment in value. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended. Depreciation is calculated to write-off the cost of the asset over its estimated useful life to its residual value on a straight-line basis as follows:

- Land and buildings — lower of life of lease or 4 years
- Furniture & Equipment — 3 to 5 years

2. Accounting policies continued

Impairment of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. 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.

Financial assets

The Group classifies its financial assets at initial recognition in the following categories:

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit or loss or available for sale. Such assets are carried at amortised cost using an effective interest method. Gains and losses are recognised in the Statement of Comprehensive Income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(ii) Trade and other receivables

Trade and other receivables are recognised and carried at the lower of their invoiced value and recoverable amount. Provision is made when there is objective evidence that the Group will not be able to recover balances in full.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions for restructuring costs are recognised when the Group has a detailed formal plan which has been notified to affected parties.

Pension schemes

The Group maintains a number of contracted-out money purchase schemes and contributions are charged to the Statement of Comprehensive Income in the year in which they are due.

Income taxes

Tax on profit or loss for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income except where it relates to an item recognised directly in equity, in which case the related tax is also recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using rates enacted or substantively enacted at the balance sheet date, and any adjustments in respect of prior years. Deferred tax is provided using the balance sheet liability method. It is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes with the following exceptions:

- Where the deferred tax liability arises from the initial recognition of goodwill;
- Where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised.

Notes to the Consolidated Financial Statements continued

At 31 December 2012

2. Accounting policies continued

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Leases

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable by the lessee are charged in the Statement of Comprehensive Income on a straight-line basis over the lease term.

Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date and differences are taken to the Statement of Comprehensive Income.

The assets and liabilities of foreign operations are translated into Sterling at the rate of exchange ruling at the balance sheet date. Income and expenses are translated at weighted average exchange rates for the year. The resulting exchange differences are taken directly to Other Comprehensive Income.

Exceptional items

The Group presents as exceptional items on the face of the Statement of Comprehensive Income those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

Share-based payment

The cost of equity settled transactions with employees is measured by reference to the fair value at the date on which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the Statement of Comprehensive Income, with a corresponding entry in equity.

Where the terms of an equity settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both measured on the date of modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation and any cost not yet recognised in the Statement of Comprehensive Income for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the Statement of Comprehensive Income.

The Group has taken advantage of the exemption in IFRS 1 in respect of equity-settled awards so as to apply IFRS 2 only to those equity-settled awards granted after 7 November 2002 that had not vested before 1 January 2006.

2. Accounting policies continued

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, less directly attributable transaction costs. The Group's financial liabilities can include trade and other payables, bank overdrafts, loans and borrowings, financial guarantee contracts, and derivative financial instruments. Financial liabilities also include preference shares, which contain a contractual obligation to make payments.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

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

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the Statement of Comprehensive Income.

The Group has not designated any financial liabilities upon initial recognition as being at fair value through profit or loss.

(ii) Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in the Statement of Comprehensive Income when the liabilities are derecognised as well as through the EIR method amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the Statement of Comprehensive Income.

(iii) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Statement of Comprehensive Income. Any costs or fees incurred are recognised as part of the gain or loss in the extinguishment of the original liability.

Standards issued but not yet effective

The International Accounting Standards Board and IFRS Interpretations Committee (IFRIC) have issued the following standards and interpretations with an effective date after the date of these financial statements:

		Effective date
IFRS 9	Financial Instruments	1 January 2015
IFRS 10	Consolidated Financial Statements	1 January 2014
IFRS 11	Joint Arrangements	1 January 2014
IFRS 12	Disclosure of Interests in Other Entities	1 January 2014
IFRS 13	Fair Value Measurements	1 January 2013
IAS 19	Employee Benefits (amendments)	1 January 2013
IAS 27	Separate Financial Statements (amendments)	1 January 2014

The directors do not anticipate that the adoption of the above standards will have a material impact on the Group's financial statements in the period of initial application except with respect to disclosure. The Group intends to adopt the standards in the reporting period when they become effective.

Notes to the Consolidated Financial Statements continued

At 31 December 2012

2. Accounting policies continued

Judgements and key sources of estimation and uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

(i) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for goodwill and intangibles at each reporting date. Goodwill is tested for impairment at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

The Group's impairment test for goodwill and intangible assets with indefinite useful lives is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the projections for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the cash-generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the cash-generating unit, including a sensitivity analysis, are further explained in note 9.

(ii) Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date on which they are granted. Judgement is required in determining the most appropriate valuation model for a grant of equity instruments, depending on the terms and conditions of the grant. Management is also required to use judgement in determining the most appropriate inputs to the valuation model including expected life of the option, volatility and dividend yield. The assumptions and models used are disclosed in note 19.

3. Group operating profit

(a) Operating profit from continuing operations is stated after charging:

	Notes	**2012 £000**	2011 £000
Auditors' remuneration	3(b)	**144**	105
Staff costs	5	**5,185**	5,542
Operating lease rentals			
– plant and machinery		**–**	1
– land and buildings		**106**	177
Depreciation	10	**78**	77
Amortisation	8	**2,974**	2,974
Exceptional operating expense	3(c)	**–**	773

(b) Auditors' remuneration

The remuneration of the Auditors is analysed as follows:

	2012 £000	2011 £000
Audit of the consolidated financial statements	**57**	52
Audit of Company's subsidiaries pursuant to legislation	**27**	27
Other fees to Auditors — taxation compliance services	**25**	16
— other non-audit services	**35**	10
	144	105

3. Group operating profit continued
(c) Exceptional operating (income)/expense

	2012 £000	2011 £000
Group restructuring costs	–	690
Capital reconstruction costs	–	(76)
Other costs	–	159
	–	773

In 2011, following the announcement of the changes to the Board on 5 December 2011, the Group made full provision in the 2011 Statement of Comprehensive Income for the compensation costs for loss of office to which one executive director and one senior manager became entitled. A provision of £456,000 for those compensation costs and related employment taxes was charged to the exceptional operating expense line within the 2011 Statement of Comprehensive Income. In addition during 2011, costs of £184,000 were incurred in respect of redundancy costs and £50,000 relating to other restructuring costs.

Capital reconstruction costs provided in 2010 were released to the 2011 Statement of Comprehensive Income following a review by management, resulting in a gain of £76,000.

Other exceptional operating costs in 2011 comprised £109,000 in respect of the closure of one open ended fund, £40,000 relating to provisions for dilapidations and £10,000 relating to other fund management provisions.

4. Emoluments of directors

	2012 £000	2011 £000
Aggregate emoluments	1,168	986
Compensation for loss of office	–	47
Payment in lieu of notice	–	126
	1,168	1,159

Directors are able to participate in the Group's money purchase pension schemes on a salary sacrifice basis. Full details of directors' emoluments are given within the Directors' Remuneration report.

Remuneration of the Group's key management personnel (including directors):

	2012 £000	2011 £000
Short-term employee benefits	1,309	1,245
Post-employment benefits	67	43
Termination benefits	–	173
Share-based payments		
— Charge for year	593	500
— MIP acceleration charge	–	11
	1,969	1,972

Notes to the Consolidated Financial Statements continued

At 31 December 2012

5. Staff number and costs

The average number of employees in the Group during the year, including executive directors, was as follows:

	2012 No.	2011 No.
Fund management	**30**	28
Board and central services	**11**	13
	41	41

The aggregate payroll costs were as follows:

		2012 £000	2011 £000
Basic salaries	— Continuing	**3,080**	3,047
	— Termination benefits	**–**	436
Performance related cash payments	— Continuing	**797**	669
Share-based payments	— Continuing	**712**	683
	— Termination benefits	**–**	18
		4,589	4,853
Social security	— Continuing	**413**	473
	— Termination benefits	**–**	46
Pensions	— Continuing	**183**	139
	— Termination benefits	**–**	31
		5,185	5,542

6. Taxation

(a) Tax on ordinary activities

	2012 £000	2011 £000
Tax credited in the Consolidated Statement of Comprehensive Income		
Current income tax		
UK corporation tax	**1,117**	809
Tax over provided in previous periods	**(169)**	(48)
Total current income tax	**948**	761
Deferred tax		
Origination and reversal of temporary differences	**(850)**	(1,102)
Impact of changes in tax laws and rates	**(251)**	(160)
Total deferred tax	**(1,101)**	(1,262)
Tax credit in the Consolidated Statement of Comprehensive Income	**(153)**	(501)
Income tax credit reported in the Consolidated Statement of Comprehensive Income	**(153)**	(501)

6. Taxation continued

	2012 £000	2011 £000
Tax relating to items charged or credited to equity		
Share-based payment	**81**	48

(b) Reconciliation of the total tax credit

The tax credit in the Statement of Comprehensive Income for the year is lower than the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%). The difference is reconciled below:

	2012 £000	2011 £000
Profit/(loss) before taxation from Continuing Operations	**913**	(427)
Profit before taxation from Discontinued Operations	**–**	243
Profit/(loss) before taxation	**913**	(184)
Profit/(loss) multiplied by the standard rate of Corporation tax in the UK of 24.5% (2011: 26.5%)	**224**	(49)
Expenses not deductible for tax purposes	**213**	122
Capital allowances shortfall	**(13)**	(34)
Brought forward losses utilised	**–**	(14)
Over provided in prior periods	**(169)**	(48)
Movement in temporary differences	**(157)**	(320)
Change in tax laws and rates	**(251)**	(160)
Other	**–**	2
Total tax credit (note 6(a))	**(153)**	(501)
Income tax credit reported in the Consolidated Statement of Income	**(153)**	(501)

(c) Standard tax rate

The standard rate of corporation tax is based on the UK tax rate of 24.5% (2011: 26.5%).

(d) Unrecognised tax losses

The Group has unrecognised deferred tax assets primarily in respect of losses amounting to £275,000 (2011: £405,000) that are available indefinitely for offset against future taxable profits of those companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group, and they have arisen in companies that are currently loss making or dormant.

(e) Temporary differences

The Group has issued a number of share options to employees which had not been exercised at the balance sheet date as disclosed in note 19. If these options were to be exercised at some point in the future when the market value of the Group's shares exceeds the option price, the difference between the market value and the option price would represent a statutory corporation tax deduction in the tax computation of the Group in the year of exercise.

Notes to the Consolidated Financial Statements continued

At 31 December 2012

6. Taxation continued

(f) Deferred tax

The deferred tax included in the balance sheet is as follows:

	2012 £000	2011 £000
Deferred tax liability		
Fair value of intangible assets on acquisition	**3,008**	4,002
Share-based payment	**(539)**	(351)
	2,469	3,651
Disclosed on the balance sheet		
Deferred tax liability	**(2,469)**	(3,651)

The deferred tax included in the Consolidated Statement of Comprehensive Income is as follows:

	2012 £000	2011 £000
Amortisation and impairment of acquired intangible assets	**(726)**	(960)
Impact of changes in tax laws and rates	**(251)**	(160)
Share-based payments	**(124)**	(142)
	(1,101)	(1,262)

7. Earnings per share

Basic earnings per share from the Continuing and Discontinued Operations is calculated by dividing the profit/(loss) for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

In calculating diluted earnings per share, IAS 33 Earnings Per Share requires that the profit/(loss) of the continuing and discontinued operations is divided by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of any potential dilutive ordinary shares that would be issued on their conversion to ordinary shares during the period. However, options issued under the Long-Term Incentive Plan (LTIP) and the Management Incentive Plan (MIP) and the shares issued under the Management Equity Incentive (MEI) have been excluded from all diluted earnings per share calculations. The conditions of the option grants fall within the definition of contingently issuable shares, and the shares issued under the MEI are treated as cancelled and non dilutive as required by IAS 33.

(a) Reported earnings per share from the combined operations

This includes both the Continuing and Discontinuing Operations' profit/(loss) for the period and has been calculated as follows:

	2012			2011		
	Profit £000	**Shares No.**	**Earnings per share pence**	(Loss)/ Profit £000	Shares No.	Earnings per share pence
Profit from Continuing Operations	**1,066**			74		
Profit from Discontinued Operations	**–**			243		
Net profit attributable to ordinary equity holders of the parent for basic and diluted earnings	**1,066**			317		
Basic and Diluted	**1,066**	**134,092,866**	**0.80**	317	125,150,273	0.25

7. Earnings per share continued

(b) Reported earnings per share from Continuing Operations

This is based on the profit/(loss) for the Continuing Operations in the period and was as follows:

	2012 pence	2011 pence
Basic and diluted	**0.80**	0.06

(c) Adjusted earnings per share from Continuing Operations

Adjusted earnings per share is based on Adjusted Profit after tax, where Adjusted Profit is stated after charging interest and share-based payments but before amortisation and exceptional items.

Adjusted Profit for calculating Adjusted earnings per share:

	2012 £000	2011 £000
Profit/(loss) for the period from Continuing Operations before taxation	**913**	(427)
Add back:		
Exceptional loss on restructuring and financing	**–**	325
Exceptional operating expense	**–**	773
Amortisation	**2,974**	2,974
Adjusted Profit	**3,887**	3,645
Taxation:		
Tax in the Statement of Comprehensive Income for Continuing Operations	**153**	501
Tax effect of adjustments	**(729)**	(1,083)
Adjusted Profit after tax for the calculation of Adjusted earnings per share	**3,311**	3,063

Adjusted earnings per share from Continuing Operations was as follows:

	2012 pence	2011 pence
Basic and diluted	**2.47**	2.45

Notes to the Consolidated Financial Statements continued

At 31 December 2012

8. Intangible assets

	Intangible assets arising on acquisition £000	Acquired Software £000	Sub-Total £000	Goodwill £000	Total £000
Cost					
At 1 January 2011	31,183	116	33,299	94,462	127,761
Additions	–	26	26	–	26
At 31 December 2011 and 1 January 2012	33,183	142	33,325	94,462	127,787
Additions	–	–	–	–	–
At 31 December 2012	**33,183**	**142**	**33,325**	**94,462**	**127,787**
Amortisation and impairment					
At 1 January 2011	14,213	96	14,309	59,918	74,227
Amortisation during the year	2,963	11	2,974	–	2,974
At 31 December 2011 and 1 January 2012	17,176	107	17,283	59,918	77,201
Amortisation during the year	2,963	11	2,974	–	2,974
At 31 December 2012	**20,139**	**118**	**20,257**	**59,918**	**80,175**
Net book value:					
At 31 December 2012	**13,044**	**24**	**13,068**	**34,544**	**47,612**
At 31 December 2011	16,007	35	16,042	34,544	50,586

9. Impairment of intangible assets

The Group has determined that as at 31 December 2012 it had one (2011: one) business segment or cash generating unit ('CGU'): Fund Management, for the purpose of assessing the carrying value of goodwill and intangible assets. The carrying value of goodwill acquired through business combinations was £34,544,000 (2011: £34,544,000). The original capitalised cost of intangible assets on acquisition was initially recognised as £33,183,000 using a combination of valuation methodologies including the effective royalty rate for the brand and a multi-period excess earnings approach for customer relationships and management contracts with estimated useful lives of between eight and ten years, of which between three and five years remain outstanding.

In line with IAS 36, Impairment of assets, a full impairment review was undertaken as at 31 December 2012. The recoverable amount within the Fund Management CGU was determined by assessing the value-in-use using long-term cash flow projections for the CGU.

The 2013 budget figures have been extrapolated over an explicit forecast period of five years. Increases in operating costs have been taken into account and cover the assumed new business volumes. Cash flows beyond the explicit forecast period are extrapolated using a long-term terminal growth rate of 3.0% (2011: 3.0%). The Board considers this rate fairly reflects the long-term nature of the business and the fact that there is no reason to believe it will not continue into the long-term. To arrive at net present value, cash flows have been discounted using a discount rate of 12.0% (2011: 12.0%). The overall value-in-use was calculated to be greater than the carrying value and hence no impairment charge has been recognised. In the Fund Management CGU, sensitivity analysis has established that an increase in the discount rate to 15.2% would be required before an impairment of goodwill and other intangibles would need to be considered.

10. Property and equipment

	Land & buildings £000	Furniture & equipment £000	Total £000
Cost			
At 1 January 2011	208	292	500
Additions	57	43	100
Disposals	(160)	(64)	(224)
At 31 December 2011	105	271	376
Additions	–	40	40
Transfer to Current Assets	(16)	–	(16)
Disposals	(89)	–	(89)
At 31 December 2012	**–**	**311**	**311**
Depreciation			
At 1 January 2011	205	170	375
Provided during the year	11	66	77
Disposals	(160)	(64)	(224)
At 31 December 2011	56	172	228
Provided during the year	33	45	78
Disposals	(89)	–	(89)
At 31 December 2012	**–**	**217**	**217**
Net book value:			
At 31 December 2012	**–**	**94**	**94**
At 31 December 2011	49	99	148

The net book value of property and equipment is equal to the fair value of the assets. At 31 December 2012, £16,000 of leasehold improvement costs have been transferred to current assets as the lease for the Reading office is due to expire within one year.

11. Investments

Details of Group undertakings

Details of investments in which the Group holds 20% or more of the nominal value of any class of share capital are as follows:

Principal Activities	Name of Subsidiary
FSA regulated investment management companies	Miton Asset Management Limited
	Miton Capital Partners Limited (formerly Midas Capital Partners Limited)
Hong Kong registered company	Miton (Hong Kong) Limited
Non-trading or dormant companies	Exeter Asset Management Limited
	Midas ESOP Limited
	Exeter Investment Group ESOP Trustee Limited
	MAMSB Limited (formerly Midas Stockbrokers Limited)

All entities are registered in England and Wales except for Midas ESOP Limited, which is registered in Scotland and Miton (Hong Kong) Limited which is registered in Hong Kong.

Liquidated in the year

Exeter Fund Managers Limited ("EFM"), non-trading since 2004, was removed from the Register of Companies following the completion of the administration process started on 3 March 2005. Due to the nature and complexities of the administration of EFM, the Group had resolved to exclude EFM from the Group consolidation from the start of administration.

Notes to the Consolidated Financial Statements continued

At 31 December 2012

12. Trade and other receivables

	2012 £000	2011 £000
Trade receivables	**1,162**	1,038
Prepayments	**389**	244
Accrued income	**87**	52
Other receivables	**–**	255
	1,638	1,589

13. Cash and short-term deposits

	2012 £000	2011 £000
Cash at bank and in hand	**11,951**	9,941

Within cash at bank are £Nil (2011: £367,000) held for the account of creditors to the Company as identified in the 23 August 2010 capital reconstruction and disclosed in note 17(d). The amount due to these creditors at 31 December 2012 of £Nil (2011: £367,000) was held in a separate escrow account.

14. Trade and other payables

	2012 £000	2011 £000
Trade payables	**98**	251
Other taxation and social security	**168**	149
Accruals	**1,404**	1,183
	1,670	1,583

15. Provisions

Provisions — current

	Onerous Leases £000	Restructuring £000	Other Fund Management Provisions £000	Total £000
At 1 January 2012	163	778	391	1,332
Transferred from non-current	17	–	–	17
Utilised	(180)	(611)	(100)	(891)
Released	–	(57)	(171)	(228)
At 31 December 2012	**–**	**110**	**120**	**230**

15. Provisions continued

Provisions — non-current

	Onerous Leases £000	Restructuring £000	Other Fund Management Provisions £000	Total £000
At 1 January 2012	17	–	–	17
Transferred to current	(17)	–	–	(17)
At 31 December 2012	**–**	**–**	**–**	**–**

Onerous leases

The Group had made a provision for the unexpired lease rental obligations on properties previously occupied by businesses which were disposed of in prior accounting periods, all of which were settled during 2012.

In 2011 the Group sublet one of its premises no longer used by the business which was terminated in 2012. This sublease has given rise to a £Nil (2011: £243,000) release of the onerous lease provision, an arrangement which was disclosed within Discontinued Operations on the face of the Statement of Comprehensive Income in 2011.

Restructuring

Following the announcement of director changes on 5 December 2011, the Group made full provision in the 2011 Statement of Comprehensive Income for the compensation costs for loss of office to which one executive director and one senior manager became entitled. An amount of £456,000 was provided, of which £414,000 was utilised and £42,000 was released to the Statement of Comprehensive Income during 2012.

Additionally, during 2011 a total of £322,000 was provided for other restructuring costs, of which £197,000 was utilised and £15,000 was released to the Statement of Comprehensive Income during 2012.

The remaining provisions at 31 December 2012 relate to £50,000 of liquidation costs, £30,000 of indemnity claims and £30,000 of dilapidation costs, all of which are expected to be settled within the next 12 months.

Other Fund Management Provisions

This provision is in respect of various matters arising within one fund managed by the Group. Owing to the uncertainties that exist around quantification and the likely timing of settlement of these matters, it is difficult to predict with any certainty the settlement amount and dates for these provisions. The provisions made represent current estimates of likely settlement amounts and the current assumption is that they will be settled within the next 12 months.

16. Financial risk management objectives and policies

The Group is exposed to the following financial risks as a result of its use of financial instruments:

- Credit risk
- Liquidity risk
- Market price risk

Information about the Group's exposure to each of the above risks is provided in this note, which describes the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The Group's financial instruments may comprise cash, trade receivables and payables and investments that arise from trading operations. A prudent hedging policy may be undertaken as and when the potential risks within trading operations dictate the need to mitigate risk. No hedging instruments were outstanding at the year end and the previous year end.

Credit risk

The risk of financial loss to the Group if a counterparty to a financial instrument is unable to pay, in full, amounts when due, arises principally from the Group's receivables from fund management clients. The Group trades primarily with formally constituted funds and financial intermediaries. Trade receivables are non-interest bearing and are generally within a 30 day term. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is low.

Notes to the Consolidated Financial Statements continued

At 31 December 2012

16. Financial risk management objectives and policies continued

The Group's exposure to credit risk relating to cash and cash equivalents classified as other financial assets of the Group arises from default by the counterparty, with a maximum exposure equal to the carrying amount of these instruments. In view of the economic conditions, the Group continues to monitor closely the credit-worthiness of its counterparties.

Maximum exposure to credit risk

The maximum exposure of each class of financial asset is the carrying value of those assets as shown below:

	2012 £000	2011 £000
Financial assets		
Trade receivables	**1,162**	1,038
Accrued income	**87**	52
Other receivables	**–**	255
Cash and cash equivalents	**11,951**	9,941
	13,200	11,286

The Group maintains its cash balances with international banks that are regulated in their own right and has a policy allocating cash deposits to two or more suitable institutions.

Fair value measurement

The fair value of financial assets and financial liabilities equates to their carrying value at the current and prior year ends.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets as at 31 December 2011	11,286	–	–	11,286
Financial assets as at 31 December 2012	13,200	–	–	13,200

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due or can only do so at a significantly increased cost. The Group's objective in managing liquidity has been to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities as they fall due, under both normal and adverse conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Market price risk

Market price risk is the risk that changes in market prices will adversely affect the Group's income due to a decline in the underlying value of assets under management, resulting in lower fees. The objective of market price risk management is to manage and control market price exposure, while optimising the return on risk. Group funds include multi asset and single strategy equity portfolios. At 31 December 2012 UK and global equities represented about 40% of Group aggregated holdings. Approximately 25% related to cash and currencies and about 15% was in respect of bonds. The remainder was invested in property and alternative investments. If the value of the equity component of our aggregated holdings was to reduce by 10% in value, the impact on our net revenue over 12 months would be a reduction of £0.5m.

Foreign exchange risk

At 31 December 2012 the Group held the equivalent of £36,000 of cash denominated in foreign currency and as such is not exposed to significant foreign exchange risk.

16. Financial risk management objectives and policies continued

Interest rate risk

The Group no longer has any borrowings and accrues interest on cash balances held with international banks. Therefore the Group is not subject to significant interest rate risk.

Capital management

The primary objective of the Group's capital management is to maintain a strong capital base in order to maintain investor, creditor and market confidence and to provide a suitable base to sustain the future development of the business, while ensuring compliance with regulatory capital requirements. The Group's capital consists of share capital and reserves of £56,288,000.

Working capital

The Group monitors the level of its working capital on an ongoing basis. The Group uses detailed financial information provided by its forecasting model and by regular review of its reported consolidated management information. The regulated companies utilise a "cash buffer plus margin" approach when determining the maintenance of cash and capital within the businesses. More details are provided in the Business Review on page 17.

Regulatory capital requirements

In accordance with the Capital Requirements Directive (CRD), the Group is required to maintain a minimum level of capital as prescribed in the UK by the Financial Services Authority (FSA). The FSA has granted the Group a waiver from the requirement to meet the minimum capital requirement under the consolidated supervision rules of the CRD. The waiver has been in place since February 2008 and was renewed in July 2010, effective until July 2015. At 31 December 2012, there were two active regulated companies in the Group, both of which are registered in the United Kingdom and regulated by the FSA.

The Group is required to conduct an Internal Capital Adequacy Assessment Process (ICAAP), referred to as Pillar 2 capital requirements. The objective of this process is to ensure that firms have adequate capital to enable them to manage risks not deemed to be adequately covered under Pillar 1 minimum requirements. This is a forward looking exercise which includes stress testing on major risks, considering how the firm would cope with a significant market downturn, for example, and an assessment of the Group's ability to mitigate the risks. The summary results of the ICAAP are reported on our website in accordance with the requirements for Pillar 3 reporting. Both regulated companies in the Group maintained surpluses of regulatory capital throughout the year.

17. Authorised and issued share capital

	2012 £000	2011 £000
Authorised:		
250,000,000 ordinary shares of 0.1 pence each	**250**	250

Allotted, called up fully paid: No. of shares	**2012 Ordinary shares 0.1 pence each No. 000**	2011 Ordinary shares 0.1 pence each No. 000
At 1 January	**146,808**	69,718
Issued on placing	**–**	60,606
Issued on exercise of warrants	**–**	2,177
Shares issued to MEI	**–**	13,177
Issued on exercise of share options	**1,515**	1,190
At 31 December	**148,323**	146,808

Notes to the Consolidated Financial Statements continued

At 31 December 2012

17. Authorised and issued share capital continued

Allotted, called up fully paid:
Value of shares

	2012 Ordinary shares 0.1 pence each £000	2011 Ordinary shares 0.1 pence each No.
At 1 January	**147**	70
Issued on placing	**–**	61
Issued on exercise of warrants	**–**	2
Shares issued to MEI	**–**	13
Issued on exercise of share options	**1**	1
At 31 December	**148**	147

The Group's MEI trust held 15,117,572 (2011: 13,117,572) of the shares listed above.

a) 2011 equity placing and debt redemption

On 14 February 2011 the Group announced that shareholders had approved the proposals for the raising of £20m by way of a placing. The net proceeds were used to redeem the outstanding preference shares including accrued dividends and repay the outstanding bank debt, plus accrued interest. In addition, 2,177,161 shares were issued in respect of a warrant exercised by Bank of Scotland at the time of the Group's debt redemption.

b) Management Equity Incentive (MEI)

The Directors' Remuneration Report on page 29 refers to the Management Equity Incentive Scheme (MEI) within which Ian Dighé, Gervais Williams, Graham Hooper and Robert Clarke have been granted equity incentives over a total of 15,117,572 shares. 13,117,572 new ordinary shares were issued on 14 April 2011 and a further 2,000,000 shares were purchased in the market during the year. The total of 15,117,572 shares are held by an employee benefit trust pursuant to the vesting conditions outlined in the Remuneration Report on page 29. The fair value of the shares at issue and purchase of £4,694,000 (equating to 31.0 pence per share), has been disclosed as MEI treasury shares in the Consolidated Statement of Changes in Equity.

c) Exceptional loss on restructuring and financing

As part of the £20m placing and debt redemption in February 2011, a £325,000 early redemption payment was made to Bank of Scotland to gain consent for the early redemption of all the Group's debt and accrued interest outstanding at that time. This payment was charged as an exceptional loss on restructuring during 2011.

d) Creditors Reserve

The Company received shareholder approval at a General Meeting in 2010 for a Reduction of Capital. A Court sanction given in 2010 was conditional on creditors at the time of the Reduction of Capital being protected adequately. The Company put into escrow an amount of cash in respect of creditors, at the date of Court sanction who may not have consented to the Reduction of Capital. £1.0m was transferred to Creditors Reserve. During 2012 all remaining amounts due to creditors have been settled and £367,000 (2011: £432,000) has been transferred to retained earnings.

18. Dividends paid and proposed

Dividends on ordinary shares declared and paid during the year:

	2012 £000	2011 £000
Final dividend for 2011 – 0.40p per share (2010: Nil)	**535**	–
Total dividend paid and charged to equity	**535**	–

Dividends on ordinary shares proposed for approval by the shareholders (not recognised as a liability at 31 December 2012):

	2012 £000	2011 £000
Final dividend for 2012 – 0.45p per share (2011: 0.40p)	**599**	535

19. Share-based payment

(a) Current schemes

The Group maintains a number of equity settled share option schemes. A summary of the status of the option schemes at 31 December 2012 and 2011 and changes during the years ended on those dates is shown below:

2012	MEI	Incentive Plans	Share Options	Total Number of equity incentives	Weighted Average Exercise Price (p)
Reference	(i)	(ii)	(iii)		
Outstanding at 1 January	13,117,572	7,708,832	144,840	20,971,244	29.91
Granted during the year	2,000,000	–	–	2,000,000	41.50
Exercised during the year	–	(1,515,000)	–	(1,515,000)	5.09
Forfeited during the year	–	(380,000)	(58,700)	(438,700)	9.38
Outstanding at 31 December	15,117,572	5,813,832	86,140	21,017,544	33.02
Exercisable at 31 December	–	4,013,832	86,140	4,019,972	8.20

2011	MEI	Incentive Plans	Share Options	Total Number of equity incentives	Weighted Average Exercise Price (p)
Reference	(i)	(ii)	(iii)		
Outstanding at 1 January	–	8,236,688	248,840	8,485,528	11.37
Granted during the year	13,117,572	800,000	–	13,917,572	39.11
Exercised during the year	–	(1,226,428)	–	(1,226,428)	4.94
Forfeited during the year	–	(101,428)	(104,000)	(205,428)	76.04
Outstanding at 31 December	13,117,572	7,708,832	144,840	20,971,244	29.91
Exercisable at 31 December	–	1,066,332	144,840	1,211,172	9.08

The weighted average share price for 2012 was 21.83p (2011: 27.69p).

The total expense recognised for share-based payments in respect of employee services received during the year to 31 December 2012 was £711,985 (2011: £701,000). This expense was in respect of equity-settled share options only, as the Company has no cash-settled share options.

(i) Management Equity Incentive ("MEI")

Interest in shares was granted to the senior management team who committed to join the Company as part of the placing on 14 February 2011. Details of awards provided to Directors during the year are in the Directors' Remuneration Report on page 29. The number of MEI options issued in the period and still outstanding at 31 December 2012 is shown in the above table.

(ii) Incentive Plans

Long-Term Incentive Plan ("LTIP")

The Group implemented an executive LTIP on 27 September 2006. Options were granted to relevant executives in two equal tranches; retention and performance. There are no further LTIP options that can vest under this scheme.

Notes to the Consolidated Financial Statements continued

At 31 December 2012

19. Share-based payment continued

Management Incentive Plan ("MIP")

The MIP is designed to incentivise executive directors and senior managers of the business. No awards were made during the year. During 2011, awards were made over 800,000 options to subscribe for 0.1p ordinary shares at a subscription price of 10p per 0.1p ordinary share. The aggregate of all MIP awards must not exceed options over 10.2 million 0.1p ordinary shares. The awards will only vest subject to the satisfaction of performance conditions and continued employment.

The number of options issued under Incentive Plans and outstanding at 31 December 2012 is as shown in the table below:

	LTIP	MIP	Total
Outstanding at 1 January 2012	133,832	7,575,000	7,708,832
Exercised during the year	–	(1,515,000)	(1,515,000)
Forfeited during the year	–	(380,000)	(380,000)
Outstanding at 31 December 2012	**133,832**	**5,680,000**	**5,813,832**

(iii) Share options

Approved and unapproved share option schemes

Approved options are those that have been granted by the Company to its employees under the Group's scheme rules approved by the Inland Revenue on 26 November 2004. Unapproved options are those that have been granted outside of the approved scheme. The options will vest from the third anniversary of the grant of the option to the employee but will lapse ten years from grant if not exercised in the case of approved options and seven years from grant for unapproved options. The Company cannot grant any further approved options ten years from the date the scheme was first approved by the Inland Revenue.

Enterprise Management Incentive (EMI) option scheme

EMI options are those granted by the Company to its employees under the Inland Revenue approved EMI share option scheme. The options vested in three equal tranches, one, two and three years from grant and lapse ten years from grant if not exercised.

	Approved	Unapproved	EMI	Total
Outstanding at 1 January 2012	18,700	20,000	106,140	144,840
Forfeited during the year	(18,700)	(20,000)	(20,000)	(58,700)
Outstanding at 31 December 2012	**–**	**–**	**86,140**	**86,140**

(b) Exercise dates of outstanding equity incentives

Exercise dates	MEI	LTIP	MIP	EMI
Exercisable up to 28 November 2013 @ 50p per share	–	–	–	86,140
Exercisable up to 19 October 2016 @ 0.1p per share	–	133,832	–	–
Exercisable up to 28 January 2020 @ 0.1p per share	–	–	960,000	–
Exercisable up to 28 January 2020 @ 10p per share	–	–	2,920,000	–
Exercisable between 18 May 2013 and 18 May 2020 @ 25p per share	–	–	1,000,000	–
Exercisable between 18 May 2014 and 18 May 2021 @ 10p per share	–	–	800,000	–
Exercisable between 31 March 2015 and 10 May 2019 @ 33p per share	7,558,786	–	–	–
Exercisable between 31 March 2016 and 10 May 2019 @ 50p per share	7,558,786	–	–	–
	15,117,572	133,832	5,680,000	86,140

19. Share-based payment continued

At 31 December 2012, all options that were outstanding can be summarised within bands of exercise price as follows:

	2012			2011		
Range of exercise price	**Outstanding option numbers**	**Weighted average remaining contractual life**	**Weighted average exercise price**	Outstanding option numbers	Weighted average remaining contractual life	Weighted average exercise price
0p to 0.9p	**1,093,832**	**7**	**0.09p**	2,038,832	8	0.09p
1p to 50p	**19,923,712**	**6**	**34.83p**	18,893,712	7	32.89p
51p to 200p	**–**	**–**	**–**	38,700	2	144.80p

(c) Fair value estimates

Management Incentive Plan

The fair value of options granted under the MIP is estimated as at the date of grant using a trinomial lattice model with assumptions for employee exit and forfeiture rates, zero dividend yields, share price, composite volatility and performance conditions. The fair value of options granted in the year was £Nil (2011: £206,132) of which £Nil was charged to the Statement of Comprehensive Income in the period (2011: £42,732).

Management Equity Incentive

The fair value of awards granted in 2012 was based on the following assumptions:

The fair value of awards granted under the MEI is estimated as at the date of grant using a trinomial lattice model with assumptions for employee exit and forfeiture rates, zero dividend yields, share price, composite volatility and performance conditions. The fair value of options granted in the year was £94,394 (2011: £2,158,616) of which £15,338 was charged to the Statement of Comprehensive Income in the period (2011: £353,450).

Assumptions	Award 1	Award 2
Grant date	26 June 2012	26 June 2012
Number of options granted	1,000,000	1,000,000
Share price at grant date	19.30p	19.30p
For grants of options made, the following assumptions have been used:		
Annualised volatility	60%	60%
Risk free interest rate at award date	1.5%	1.5%
Expected dividend yield	2.1%	2.1%
Term to vesting from grant date	31 months	43 months
Exercise price	33p	50p
Expected life of option from grant date	3.75 years	4.75 years

The expected life of the equity incentives is based on historical data and is not necessarily indicative of exercise patterns that may occur. The annualised volatility is based upon a GARCH analysis which provides a forecast equivalent to an exponentially weighted average rate incorporating regression towards the mean of the historical trend line. Volatility rates for intermediate points in time were obtained by interpolation. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome. A Black–Scholes valuation model has been used to estimate the fair value of these equity incentives. The risk free interest rate is based on the UK gilts rate with a corresponding maturity as published in the Financial Times.

The mid-market value of the Company's shares at 31 December 2012 was 21.75 pence. The mid-market value varied between 18.75 pence and 26.00 pence per share during the year.

Notes to the Consolidated Financial Statements continued

At 31 December 2012

20. Nature and purpose of reserves

Capital redemption reserve

The balance held in the capital redemption reserve relates to the total value of preference shares redeemed. In each relevant accounting period a corresponding charge is taken to retained earnings for capital redemptions made.

Creditors reserve

The balance held in the creditors reserve at 31 December 2011 relates to protected creditors as disclosed to in note 17(d).

21. Obligations under non-cancellable operating leases

The Group has entered into commercial leases on certain properties and items of machinery. These leases have a duration of between three and ten years. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2012 £000	2011 £000
Not later than one year	**18**	72
After one year but not more than five years	**291**	332
After five years	**–**	–
	309	404

22. Contingent liabilities

There are no contingent liabilities.

23. Related Party Transactions

During the year purchases totalling £9,647 (2011: £14,000) at normal market prices were made by Group companies from 8el (Aggregated Telecom Ltd), of which Martin Gray was a director as at the year end.

Additionally, services totalling £22,830 (2011: £26,000) were provided to the Group by Gray Associates (business consultant), of which Martin Gray's brother is the proprietor.

Company Financial Statements

31 December 2012

Miton

Statement of Directors' Responsibilities in Relation to the Parent Company Financial Statements

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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;
- 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 are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report to the members of Miton Group plc (formerly known as MAM Funds plc)

We have audited the parent Company financial statements of Miton Group plc (formerly known as MAM Funds plc) for the year ended 31 December 2012 which comprise the Company balance sheet and the related notes 1 to 10. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditors' 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 60, the directors are responsible for the preparation of the parent Company 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 parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the parent Company Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company 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.

Other matter

We have reported separately on the Group financial statements of Miton Group plc for the year ended 31 December 2012.

Amarjit Singh (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

15 March 2013

Company Balance Sheet

as at 31 December 2012

	Notes	2012 £000	2011 £000
Fixed assets			
Tangible assets	2	**85**	151
Investments in subsidiaries	3	**55,322**	55,076
		55,407	55,227
Current assets			
Debtors	4	**1,417**	452
Cash at bank	5	**4,425**	4,319
		5,842	4,771
Creditors: amounts falling due within one year	6	**1,148**	951
Net current assets		**4,694**	3,820
Total assets less current liabilities		**60,101**	59,047
Provisions for liabilities	7	**80**	867
		60,021	58,180
Capital and reserves			
Called up share capital	8	**148**	147
Share premium account	10	**24,594**	24,280
MEI Treasury shares		**(4,694)**	(4,296)
Merger reserve	10	**5,658**	5,658
Capital redemption reserve	10	**11,562**	11,562
Creditors reserve	10	**–**	367
Profit and loss account	10	**22,753**	20,462
Total equity shareholders' funds		**60,021**	58,180

These accounts were approved and authorised for issue by the Board on 15 March 2013 and signed on its behalf by:

Ian Dighé
Executive Chairman

Company Registration No. 05160210

Notes to the Financial Statements

At 31 December 2012

1. Accounting policies

Basis of preparation

The parent Company financial statements of Miton Group plc (formerly known as MAM Funds plc) (the "Company") are presented as required by the Companies Act 2006 and were approved for issue on 15 March 2013.

The financial statements are prepared under the historical cost convention and United Kingdom Generally Accepted Accounting Practice (UKGAAP). These policies have been applied consistently.

No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006.

The Company accounting policies are as per the Group policies stated on pages 37 to 42.

In addition to these are the following policies:

Share-based payment

The parent Company shows the share-based payment charge to employees in subsidiaries as an increase in the carrying value of those subsidiary investments and a corresponding further credit is taken to retained reserves.

Investments in subsidiaries

Investments in subsidiaries are carried in the Company's balance sheet at the lower of cost and recoverable amount. The carrying value is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Obligations under operating leases

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

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date will result in an obligation to pay more, or a right to pay less or to receive more tax. Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Related Party Transactions

The parent company is part of a UK group which prepares publicly available consolidated financial statements in which the results of the Company are included, and it is therefore exempted from the requirements to disclose related party transactions.

Cashflow statement

The parent company is part of a UK group which prepares publicly available consolidated financial statements in which the results of the Company are included, and it is therefore exempted from the requirements to prepare a cash flow.

Notes to the Financial Statements

At 31 December 2012

2. Tangible fixed assets

	Leasehold improvements £000	Furniture and equipment £000	Total £000
Cost			
At 1 January 2012	70	210	280
Additions	–	13	13
Transfer to Current Assets	(12)	–	(12)
Disposals	(58)	–	(58)
At 31 December 2012	**–**	**223**	**223**
Depreciation			
At 1 January 2012	32	97	129
Charge for year	26	41	67
Disposals	(58)	–	(58)
At 31 December 2012	**–**	**138**	**138**
Net book value			
At 31 December 2012	**–**	**85**	**85**
At 31 December 2011	38	113	151

3. Investments

	Subsidiaries £000
Cost	
At 1 January 2012	123,167
Share based payment charge in respect of investments	280
At 31 December 2012	**123,447**
Provision for diminution in value	
At 1 January 2012	68,091
Provision during year	34
At 31 December 2012	**68,125**
Net book value	
At 31 December 2012	**55,322**
At 31 December 2011	55,076

The subsidiary undertakings as at 31 December 2012 are as listed in note 11 of the Consolidated Financial Statements.

The Company made a provision of £34,000 in 2012 (2011: £138,000) to bring the carrying value into line with the net asset value of one of its non-trading subsidiaries.

4. Debtors

	2012 £000	2011 £000
Trade debtors	**18**	284
Amounts due from Group companies	**1,261**	10
Prepayments and accrued income	**138**	147
Tax recoverable	**–**	11
	1,417	452

5. Cash and short-term deposits

	2012 £000	2011 £000
Cash at bank and in hand	**4,425**	4,319

Within cash at bank are £Nil (2011: £367,000) certain balances held for the account of creditors to the Company as identified in the 23 August 2010 capital reconstruction and disclosed in note 17 (d) to the Consolidated Financial Statements. The amount due to these creditors as at 31 December 2012 of £Nil (2011: £367,000) was held in a separate escrow account.

6. Creditors: amounts falling due within one year

	2012 £000	2011 £000
Trade creditors	**23**	106
Other taxation and social security	**109**	82
Accruals and deferred income	**655**	522
Amounts due to Group companies	**239**	241
Corporation tax	**122**	–
	1,148	951

7. Provisions for Liabilities

	Onerous Leases £000	Restructuring £000	Total £000
At 1 January 2012	179	688	867
Provided in the period	–	–	–
Utilised in the period	(179)	(611)	(790)
Transfer from Group Company	–	50	50
Released	–	(47)	(47)
At 31 December 2012	**–**	**80**	**80**

Onerous leases

The Group had made a provision for the unexpired lease rental obligations on properties previously occupied by businesses which were disposed of in prior accounting periods all of which were settled during 2012.

Restructuring

Following the announcement of its director changes on 5 December 2011, the Group made full provision in the 2011 Statement of Comprehensive Income for the compensation costs for loss of office to which one executive director and one senior manager became entitled. A provision of £456,000 was provided of which £414,000 was utilised and £42,000 was released to the Statement of Comprehensive Income in 2012.

Other restructuring provisions at 31 December 2011 totalled £232,000 of which £197,000 was utilised and £5,000 was released to the Statement of Comprehensive Income in 2012.

The remaining balance at 31 December 2012 relates to £50,000 of liquidation costs (transferred from Exeter Asset Management Limited) and £30,000 in respect of potential indemnity claims both of which are expected to be settled within the next 12 months.

Notes to the Financial Statements continued

At 31 December 2012

8. Called up share capital

Allotted, called up fully paid: No. of shares	2012 Ordinary shares 0.1 pence each No. 000	2011 Ordinary shares 0.1 pence each No. 000
At 1 January	**146,808**	69,718
Issued on placing	**–**	60,606
Issued on exercise of warrants	**–**	2,177
Shares issued to MEI	**–**	13,177
Issued on exercise of share options	**1,515**	1,190
At 31 December	**148,323**	146,868

Allotted, called up fully paid: Value of shares	2012 Ordinary shares 0.1 pence each £000	2011 Ordinary shares 0.1 pence each £000
At 1 January	**147**	70
Issued on placing	**–**	61
Issued on exercise of warrants	**–**	2
Shares issued to MEI	**–**	13
Issued on exercise of share options	**1**	1
At 31 December	**148**	147

9. Share-based payment

The share-based payments as at 31 December 2012 are as detailed in note 19 of the Consolidated Financial Statements.

10. Reserves

	Profit and loss account £000	Merger reserve £000	Share premium £000	Capital redemption reserve £000	Creditors reserve £000	Total £000
At 1 January 2012	20,462	5,658	24,280	11,562	367	62,329
Retained profit for the year	2,008	–	–	–	–	2,008
Dividends	(535)	–	–	–	–	(535)
Shares issued on exercise of options	(248)	–	314	–	–	66
Share-based payments – Company	419	–	–	–	–	419
Share-based payments – investments	280	–	–	–	–	280
Transfer from creditors reserve	367	–	–	–	(367)	–
As at 31 December 2012	**22,753**	**5,568**	**24,594**	**11,562**	**–**	**64,567**

The Company's profit after taxation for the year ended 31 December 2012 was £2,007,798 (2011: £1,851,000).

Notice of Annual General Meeting Miton Group plc (formerly known as MAM Funds plc) (the "Company")

NOTICE IS HEREBY GIVEN that the Ninth **Annual General Meeting** (the "**Meeting**") of the Company will be held at 10.30 am on 15 May 2013 in the David Burbidge Suite at 12 Austin Friars, London EC2N 2HE for the following purposes:

ORDINARY BUSINESS:

As ordinary business to consider and, if thought fit, to pass the following resolutions numbers 1 to 6, all of which will be proposed as ordinary resolutions.

Ordinary resolutions

1. That the Company's annual audited accounts for the year ended 31 December 2012, together with the Directors' Report and the Auditors' Report on those accounts, be received and adopted.

2. That Ernst & Young LLP be reappointed as Auditors to the Company until the conclusion of the next Annual General Meeting of the Company.

3. That the directors be authorised to fix the Auditors' remuneration.

4. That the directors be authorised to pay a dividend of 0.45p per ordinary 0.1p share in the Company.

5. That the Directors' Remuneration Report for the year ended 31 December 2012, which is set out in the Annual Report of the Company for the year ended 31 December 2012, be approved.

6. That Lord Wade of Chorlton, who retires pursuant to Article 106 of the Company's Articles of Association and who, being eligible, offers himself for election, be elected as a director of the Company.

SPECIAL BUSINESS:

As special business to consider and, if thought fit, to pass the following resolutions, number 7 of which will be proposed as an ordinary resolution, and numbers 8 and 9 of which will be proposed as special resolutions.

Ordinary resolution

7. That, for the purposes of section 551 of the Companies Act 2006 (the "Act") (and so that expressions used in this resolution shall bear the same meanings as in the said section 551):

   7.1 the directors be and are generally and unconditionally authorised, in substitution for any authorities previously granted to the directors, to exercise all the powers of the Company to allot shares and to grant such subscription and conversion rights as are contemplated by sections 551(a) and (b) of the Act, respectively up to a maximum aggregate nominal amount of £49,802 to such persons and at such times and on such terms as they think proper during the period expiring on 14 August 2014 (unless previously revoked or varied by the Company in General Meeting); and further

   7.2 the directors be and are generally and unconditionally authorised to exercise all powers of the Company to allot equity securities (as defined in section 560 of the Act) in connection with a rights issue in favour of the holders of equity securities and any other persons entitled to participate in such issue where the equity securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as may be) to the respective number of equity securities held by them up to an aggregate nominal amount of £49,802 during the period expiring on 14 August 2014 (unless previously revoked or varied by the Company in General Meeting) subject only to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws or requirements of any recognised regulatory body or stock exchange in any territory; and

   7.3 the Company be and is hereby authorised to make prior to the expiry of such period any offers, agreements or arrangements which would or might require such shares or rights to be allotted or granted after such expiry of the said period and the directors of the Company may allot such shares or grant such rights in pursuance of such offers, agreements or arrangements as if the authority conferred hereby had not expired.

Notice of Annual General Meeting Miton Group plc (formerly known as MAM Funds plc) (the "Company")

Special resolutions

8. That, subject to the passing of Resolution 7 set out above, the directors be and are empowered in accordance with Section 570 of the Act to allot equity securities (as defined in section 560 of the Act) for cash, pursuant to the authority conferred on them to allot such shares or grant such rights by Resolution 7 above, as if section 561(1) and sub-sections (1)–(6) of section 562 of the Act did not apply to any such allotment, provided that such power is limited to the allotment of equity securities:

   8.1 in connection with an issue or offering in favour of holders of equity securities (but in the case of the authority granted under Resolution 7.2 above by way of a rights issue only) and any other persons entitled to participate in such issue or offering where the equity securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as may be) to the respective number of equity securities held by or deemed to be held by them on the record date of such allotment, subject only to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws or requirements of any recognised regulatory body or stock exchange in any territory; and

   8.2 (otherwise than pursuant to 8.1 above), up to an aggregate nominal value not exceeding £7,470;

   PROVIDED always that the authority conferred by this Resolution 8 shall expire on 14 August 2014 and that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and notwithstanding such expiry the directors may allot equity securities in pursuance of such offers or agreements as if the authority conferred hereby had not expired.

9. That the Company be and is hereby generally and unconditionally authorised for the purposes of Section 701 of the Act to make market purchases of fully paid ordinary shares of 0.1p each in the capital of the Company provided that:

   9.1 the maximum aggregate number of ordinary shares hereby authorised to be purchased is 7,470,332;

   9.2 the minimum price (exclusive of expenses) which may be paid for such ordinary shares is 0.1p per share being the nominal amount thereof;

   9.3 the maximum price (exclusive of expenses) which may be paid for such ordinary shares shall be an amount equal to the higher of (i) 5% above the average of the middle market quotations for such shares taken from the AIM Appendix to The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the purchase is made and (ii) the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System SETS;

   9.4 the authority hereby conferred shall (unless previously removed or revoked) expire on 14 August 2014; and

   9.5 the Company may make a contract to purchase its own ordinary shares under the authority hereby conferred by this resolution prior to the expiry of such authority, and such contract will or may be executed wholly or partly after the expiry of such authority, and the Company may make a purchase of its own ordinary shares in pursuance of any such contract.

By order of the Board

Registered Office
10–14 Duke St
Reading RG1 4RU

Roger Bennett
Secretary

15 March 2013

Shareholder Information and Financial Calendar

Annual General Meeting	15 May 2013
2013 half year results announced	September 2013
2013 full year results announced	March 2014
Closing mid-market share price on 31 December 2012	21.75p
Stock Code	MGR
Listing details	The Company's ordinary shares are quoted on the Alternative Investment Market. The price of the ordinary shares appears within the "AIM" section of the Financial Times.

Secretary and Advisers

Company Secretary and Registered Office
Roger Bennett
10–14 Duke Street
Reading
RG1 4RU

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Capita IRG Plc
The Registry
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London EC2Y 5ET

Company registration number 5160210

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Open-ended funds

Miton Global Diversified Income Fund

The Miton Global Diversified Income Fund aims to produce attractive levels of income in a low yield environment by investing across a wide spectrum of regions and asset classes.

CF Miton Total Return Fund

The CF Miton Total Return Fund is a multi-asset portfolio that looks to target returns of LIBOR+3% over the course of the investment cycle.

CF Miton Worldwide Opportunities Fund

The CF Miton Worldwide Opportunities Fund is to prioritise capital growth by investing primarily in a full range of both open ended and closed ended funds.

CF Miton Special Situations Portfolio

The CF Miton Special Situations Portfolio is a global macro, multi asset fund that aims to achieve long term returns above inflation over the course of a full investment cycle.

CF Miton Strategic Portfolio

The CF Miton Strategic Portfolio is a global cautious fund that prioritises capital preservation and low volatility across all market cycles.

CF Miton Diversified Growth Fund

The CF Miton Diversified Growth Fund is a balanced multi asset portfolio, which aims to achieve long term capital growth without taking undue risk.

CF Miton Distribution Fund

The CF Miton Distribution Fund is a multi asset fund that aims to achieve a relatively high level of growing income in addition to capital growth without taking undue risk.

CF Miton UK Multi Cap Income Fund

The CF Miton UK Multi Cap Income Fund invests across the market cap spectrum of UK quoted companies, aiming to provide attractive levels of dividends coupled with capital growth over the long term.

CF Miton UK Smaller Companies Fund

The CF Miton UK Smaller Companies Fund is an equity fund that aims to achieve long-term total returns by investing primarily in UK smaller quoted companies.

CF Miton UK Value Opportunities Fund

The new CF Miton UK Value Opportunities Fund aims to achieve capital growth for investors by focusing on the very best value opportunities in the market, while trying to avoid stocks which look great value on the surface but on closer inspection are expensive.

CF Miton US Opportunities Fund

The CF Miton US Opportunities Fund is a new fund that aims to beat the S&P500 by 3-5% per annum over an investment cycle by investing in US equities, the largest equity market in the world.

Closed end funds

The Diverse Income Trust plc

The company's investment objective is to provide shareholders with an attractive level of dividends coupled with capital growth over the long-term by investing across the market cap spectrum of UK quoted companies.

Midas Income & Growth Trust plc

The company's investment objective is to outperform 3-month LIBOR + 3% over the longer term, with low volatility and the prospect of capital and income growth, through investment in a multi-asset portfolio

Miton Worldwide Growth Investment Trust plc

The company's investment objective is to outperform 3 month LIBOR + 2% over the longer term, principally through exploiting inefficiencies in the pricing of closed end funds.

Henderson Fledgling Trust PLC

The Company seeks long-term growth in capital and dividends from investment predominantly in the constituents of the FTSE Fledgling (ex. Investment Companies) Index.

Miton

www.mitongroup.com

Miton Group plc, 10–14 Duke Street
Reading, RG1 4RU