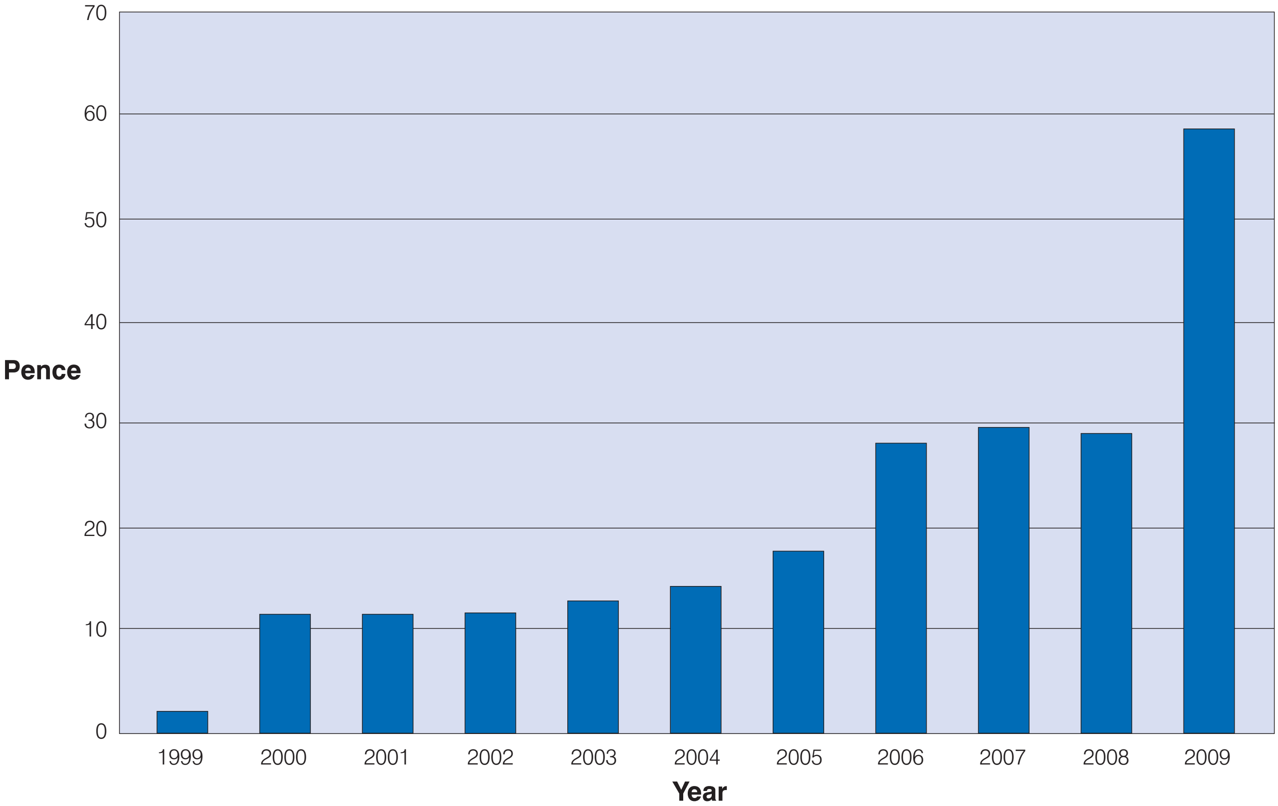
Shore Capital Group plc

Annual Report and Accounts 2009

Contents

Returns to shareholders over the last decade

Cumulative total return (net asset per share growth plus dividends paid)



Highlights

Strong underlying profit growth

One-off £63.1m increase in net assets arising from German acquisition

Total return to shareholders over decade of over 40% p.a., highest in peer group

Financial Highlights (excluding the one-off increase in net assets)*

- Profit before tax of £14.6m (2008 loss of £1.3m)
- Comprehensive profit before tax (including revaluation gain) of £18.2m (2008: loss of £1.7m)
- Earnings per share ("EPS") of 3.81p (2008: 0.01p). Comprehensive EPS of 5.16p
- Revenue from Equity Capital Markets and Asset Management up 47.6%, all organic growth
- Strong balance sheet and good liquidity: cash balance of £60.0m

Financial results including one-off increase in net assets

- Profit of £63.1m arising from one-off increase in net assets generated by Puma Brandenburg acquisition; proposals in process for Puma Brandenburg de-merger
- Including one-off increase, comprehensive EPS of 28.53p
- Further dividend of 0.625p per share (2008: 0.05p), total annual dividend for 2009 of 0.875p (2008: 0.30p)
- Total return to shareholders (net asset per share growth plus dividends paid) over decade of over 40% p.a., highest of peer group

Operational Highlights

- ECM showed strong growth, particularly in market-making. Four corporate finance deals undertaken since start of 2010 including advising on takeover of West Ham United FC
- Strong fund management performance, particularly in hedge fund and fund of funds; fund of funds awarded 5 star rating by Morningstar

Note:

* These figures include the operating income but exclude the goodwill credit arising from the acquisition in September 2009 of Puma Brandenburg Limited, an AIM-listed German property fund. The net assets acquired from the acquisition of this business exceeded the consideration paid and consequently created an uplift from negative goodwill of £63.1m.

Corporate Profile

Shore Capital is an investment banking group which specialises in equity capital market activities and investment management of alternative assets. The ECM division offers a wide range of services for companies, institutions and other sophisticated clients including corporate finance, stockbroking and market-making. Its Asset Management division manages specialist funds, with a particular focus on real estate growth, capital and alternative asset classes. In addition, the Group conducts principal finance activities using its own balance sheet.

From offices in Guernsey, London, Liverpool, Edinburgh and Berlin we undertake a broad range of investment banking services, including:

Equity Capital Markets

- specialist sales to, and research for, institutions in selected sectors;
- corporate finance advice, including fund-raising, sponsorship on the London Stock Exchange, acting as nomad on AIM, takeovers and mergers;
- smaller company market-making. Shore Capital makes markets in over 1,000 stocks and is the second largest market-maker on AIM by stock coverage.

Asset Management

- growth capital, both quoted and unquoted, including pre-IPO finance;
- residential, mixed use and commercial property in Germany;
- diversified portfolios of hedge and other funds, principally through an open ended fund of funds;
- specialist equity long/short hedge fund;
- structured vehicle investing in UK hotel property;
- innovative venture capital trusts ("VCTs") providing mezzanine capital to solid companies;
- advisory and discretionary fund management for high net worth individuals and entrepreneurs, based on model portfolios in both equities and funds, designed either for income or for growth;
- aggregate funds under management are currently approximately £1.3 billion.

Group overview

Shore Capital Group is independently owned with its management as substantial shareholders. Its shares are listed on the AIM. Shore Capital Stockbrokers Limited, Shore Capital and Corporate Limited and Shore Capital Limited are all authorised and regulated by the Financial Services Authority and Shore Capital Stockbrokers Limited is also a member of the London Stock Exchange.

The Group was founded in 1985 and has grown rapidly in recent years to become one of London's leading independent investment banking boutiques. Since inception we have had a close affinity with entrepreneurial clients, whether individuals or businesses, and in investing in entrepreneurial businesses. We have become one of London's leading market-makers in small and mid cap securities and established a substantial independent sales and research activity for institutions in selected sectors. In parallel we have established a broad range of fund management products, mostly focused on absolute return.

The emphasis throughout the Group is on a professional and personalised service and we seek to offer our expertise both responsively and pro-actively. We believe that our greatest asset is the experience, vigour and commitment of our people. Our management and employees own a significant proportion of the business, and are committed to success.

We pride ourselves on our network of clients, institutions, companies and high net worth individuals including entrepreneurs, and on our research capability in the industry sectors where we are expert. Our market-making operation has established a reputation within the broking and institutional community for offering a pro-active and responsive service.

Our Services – an overview

Every Shore Capital client receives a pro-active, dedicated service designed to grow and develop according to changes in his or her priorities and shifts in market conditions. Innovation and creativity are key.

Shore Capital offers a full range of complementary services described below:

Equity Capital Markets

Institutional stockbroking and market-making

- highly ranked research-based institutional stockbroking, focusing on selected sectors where we have strong research expertise, corporate clients, fast growing companies and special situations;
- research coverage in retailing and consumer goods including general retailing, food retailing and food manufacturing, finance including banks, specialty finance and insurance, pharmaceuticals, bio-technology and life sciences, leisure, construction, property, support services, information technology software and hardware, and overall investment strategy;
- secure and efficient settlement and custody arrangements through Pershing Securities, part of the Bank of New York Mellon Corporation group;
- highly competitive and client-orientated market-making in a broad range of smaller UK companies, listed on either the Official List or AIM. In all we currently cover over 1,000 stocks with electronic links enabling automatic execution to a wide range of retail stockbrokers through direct links and third party networks.

Corporate finance advice and deal structuring

- a full range of advisory and transaction services from a highly committed team;
- initial public offerings (“IPOs”), secondary placings and rights offerings;
- mergers and acquisitions, including Takeover Code offers and capital restructurings;
- structuring and arranging private equity transactions;
- strategic and day to day public company advice and support;
- specialist expertise in the particular requirements of medium and small cap companies; and
- specialist expertise in sectors including retail, property, housebuilding, leisure, technology, software and media.

Private Client Stockbroking

- stockbroking and portfolio management services for active, often entrepreneurial, private investors either on an advisory or discretionary basis;
- specialist trading services designed for expert investors.

Advisory and Discretionary Fund Management

- customised portfolios based on model portfolios, adapted to client’s requirements;
- model portfolios of equities and bonds and fund of funds;
- personalised service and investment advice.

Asset Management

Commercial Property and Hotels

- commercial property fund raised in 2002 to invest £125m in UK property. Last properties sold in 2006 and fund has been fully realised. Delivered IRR of 39 per cent p.a;
- established a specialist vehicle in 2004 to acquire portfolios of UK regional hotels. Puma Hotels now owns 20 major hotel properties, which have been let on a long term lease to Barceló, the leading Spanish hotel operator.
- launched Puma Brandenburg in 2006 to buy commercial, residential and mixed use property in Germany.

Growth capital – St Peter Port and Puma VCTs

- specialist fund, St Peter Port, dedicated to development capital opportunities, pre-IPO and other defined exit investments;
- six Puma VCTs established between 2005–10. Focus on providing mezzanine finance to growing businesses on attractive terms;
- adding another dimension to our commitment to developing companies;
- investing in companies with the potential for rapid growth, in both the ‘old’ and ‘new’ economies;
- providing funding and management advice to companies preparing to float in the future.

Hedge Funds and Alternative Assets

- track record of consistent performance with own portfolio of hedge funds;
- Puma Absolute Return Fund launched in May 2003 as a Dublin listed fund of funds. investing in hedge funds and other best of breed funds;
- focus on selecting the right managers and building the appropriate portfolio to diversify risk;
- launched Puma Sphera in December 2006, specialist equity long/short fund.
- launching PARU, UCITS compliant fund of funds, in 2010.

Shore Capital International

We have an office in Berlin to provide asset management services and investment banking in Germany and Eastern Europe. The team includes property specialists and we intend to use the office to offer access to the London capital markets to German and other Continental European countries.

Chairman's Statement

Introduction

I am pleased to report our results for 2009, a year of significant achievements for the Group. The strong improvement in our operating businesses in the first half, seen particularly in the period from March to June 2009, continued in the second half. As we expected, the trend of downward revaluations in our balance sheet investments had run its course by the middle of the year and we saw a positive return in this area in the second half.

Both our Equity Capital Markets ("ECM") and Asset Management businesses improved their performance in 2009 compared to 2008. ECM showed strong growth, with a strong rebound in market-making in particular. Asset Management saw good performance in its individual funds and continued to show growth in income and profit.

The other most significant development for the Group was the acquisition of a large majority interest (94.97 per cent) in Puma Brandenburg Limited ("Puma Brandenburg" or "PBL") on 25th September 2009. This acquisition was undertaken to give Puma Brandenburg a shareholder base which was able to provide it with the strategic support necessary to enable it to capitalise upon the value of its assets in the longer term. However, as Puma Brandenburg is highly geared compared to the rest of the Group, the Board has put forward the proposal to de-merge the interest in it and list this separately.

These results include a contribution from Puma Brandenburg for just over 3 months of trading. However, as a consequence of the proposal to de-merge this interest we have presented, in accordance with accounting rules, the contribution from Puma Brandenburg separately from the continuing operations of the Group.

Financial Review

The following table gives the directors' analysis of the results for the year from operating activities, including results from operations being demerged, and movements in the value of balance sheet holdings and is provided in addition to the IFRS format shown on page 23.

The Group excluding PBL

Revenue for the year was £39.0m (2008: £19.7m), an increase of 98.0 per cent. This increase reflects both an improvement in income from operations in the year (see below) with a much reduced loss on balance sheet activities of £0.3m (2008: £7.2m). (The loss on balance sheet activities reduces reported revenue).

Combined revenue from operating businesses, primarily ECM and Asset Management, was £39.3m (2008: £26.9m), an increase of 46.1 per cent.

Administrative expenses were £28.4m (2008: £21.3m), an increase of 33.3 per cent. reflecting the higher activity during the year. This led to an operating profit of £10.6m (2008: operating loss of £1.6m).

Interest income was £0.6m (2008: £2.0m), whilst finance costs were £0.7m (2008: £1.6m), both changes reflecting the lower average interest rates during 2009.

As a result, the profit before tax was £10.5m (2008: loss of £1.3m). The net margin before tax was 26.9 per cent (2008: minus 6.5 per cent) after allowing for costs of £1.0m (2008: credit of £0.4m) in relation to share options.

Revenue from ECM was £27.6m (2008: £16.5m), with a net margin of 32.0 per cent (2008: 14.3 per cent). Revenue from Asset Management was £10.4m (2008: £9.2m) with a net margin of 50.6 per cent (2008: 48.5 per cent).

Balance Sheet Holdings

As reported in our 2008 results, we have re-aligned the deployment of the capital on our balance sheet not immediately required by the operating businesses. Given the extreme volatility in the markets, we ceased the trading activity within Shore Capital Trading Limited and this company was put into orderly liquidation at the end of January 2009.

We have various balance sheet holdings held as investments. One consequence of this is that any further movements in value prior to realisation are taken through reserves rather than the profit and loss account. Thus the profit and loss account shows a loss on balance sheet holdings of £0.3m before tax but the Statement of Comprehensive Income shows net gains taken to reserves on revaluation of investments of £3.4m. Consolidating the two, our balance sheet holdings therefore achieved a gain of £3.1m.

Contribution from PBL

Puma Brandenburg contributed income of £11.7m for the period from acquisition to the year end. For the same period it contributed a pre-tax profit of £4.1m, generating £3.5m after tax for the Group.

The fair value of the net assets acquired from the acquisition of Puma Brandenburg Limited exceeded the consideration paid and consequently have created negative goodwill of £63.1m which is treated for accounting purposes as a credit to our income statement and increases net assets.

Earnings per Share

Prior to the addition of the goodwill credit, the Group generated earnings per share of 3.81p (2008: 0.01p). Including the credit from negative goodwill, earnings per share were 27.18p.

Twelve months ended 31 December

	Operating Businesses 2009 £'000	Balance sheet holdings 2009 £'000	Total 2009 £'000	Total 2008 £'000
Revenue	39,306	(318)	38,988	19,652
Expenditure	(28,352)	–	(28,352)	(21,268)
Operating profit/(loss)	10,954	(318)	10,636	(1,616)
Net interest	(105)	–	(105)	348
Profit before tax from operations being demerged [1]	4,068	–	4,068	–
Profit/(loss) for the year before taxation	14,917	(318)	14,599	(1,268)
Gains recognised in Statement of Comprehensive Income	–	3,457	3,457	28
Other amounts recognised in Statement of Comprehensive Income	146	–	146	(488)
Comprehensive profit/(loss) for the year before taxation	15,063	3,139	18,202	(1,728)
Comprehensive taxation [1]	(3,663)	881	(2,782)	1,940
Comprehensive profit for the year after taxation	11,400	4,020	15,420	212
Amounts relating to operations being demerged:				
Negative goodwill relating to acquisition of operations being demerged [2]	63,146	–	63,146	–
Other amounts from operations being demerged	(25)	–	(25)	–
Total comprehensive profit for the year, net of tax	74,521	4,020	78,541	212
Attributable to:				
Equity holders of the parent	69,192	4,020	73,212	(204)
Non controlling interests	5,329	–	5,329	416
	74,521	4,020	78,541	212
Earnings per share				
Basic	26.96p	1.57p	28.53p	(0.07)p
Diluted	26.27p	1.53p	27.80p	(0.07)p

1 Profit from operations being demerged has been included as part of profit before tax and the corresponding tax component has been included within Comprehensive Taxation, whereas under IFRS results from operations being demerged are presented after profit after tax as shown in the Consolidated Income Statement on page 22.

2 Negative goodwill relating to acquisition of operations being demerged has been included after profit after tax, whereas under IFRS negative goodwill relating to acquisition of PBL is presented before profit before tax as shown in the Consolidated Income Statement on page 22.

Chairman's Statement continued

Comprehensive Income per Share
Comprehensive income (excluding the goodwill credit) generated earnings per share of 5.16p per share (2008: loss of 0.07p). Including the goodwill credit, earnings per share were 28.53p.

Staff Costs
Staff costs, including incentive costs, were 35.8 per cent of revenue (2008: 43.3 per cent).

Liquidity
We extended our medium term evergreen bank facility by 1 year so that it now runs to June 2012 with a minimum 2 year notice period. The facility size is £20m, of which £15m is committed and was drawn down at the year end. Separately, our £20m working capital facility (which was unutilised at the year end) was also extended for a further year.

As at the balance sheet date, available liquidity was £61.6m (2008: £51.9m), comprising £60.0m (2008: £48.7m) of cash and £1.6m (2008: £3.2m) of bonds. This demonstrates the Group's flexibility to undertake a range of transactions as opportunities arise in the near term.

Share Buy-backs and Cancellations
During the year, we continued the programme of buy-backs begun in December 2007. Over the year, we bought in a further 13,858,096 shares at a cost of £3.6m, an average price per share of 25.9 pence. Over the whole programme we have bought in 55,974,557 shares at an average price per share of 28.5 pence.

Balance Sheet
Our balance sheet has grown over the year both from internally generated resources and as a result of the acquisition of Puma Brandenburg. Total equity at the year end was £143.0m (2008: £66.9m). Of this, £1.6m was in bonds, £0.8m net was held in quoted equities and £1.0m net in the Lily Partnership. After allowing for other Group borrowings of £15.0m, net cash was £45.0m. We held a further £14.2m in the various Puma Funds and £2.4m in other holdings, which were unquoted. The net asset value of the Puma Brandenburg subsidiary was £66.6m. The remainder of the balance sheet was £11.4m, including net market debtors of £5.9m.

Net Asset Value per Share
As a result of the growth in our balance sheet as described above, the net asset value per share at the year end was 57.0p (2008: 25.4p).

Dividend
Our balance sheet is strong and we therefore propose a further interim dividend of 0.625p per share. In addition to the interim dividend of 0.25p per share, this gives a total dividend for 2009 of 0.875p per share (2008: 0.3p per share). The dividend will be paid on Thursday 1 April 2010 to shareholders on the register as at 19 March 2010.

Operating Review
The following operating review reports on our two main areas of focus, namely Equity Capital Markets and Alternative Assets/Principal Finance.

Equity Capital Markets
In Equity Capital Markets, we provide research in selected sectors, broking for institutional and professional clients, market-making in AIM and small cap stocks and corporate finance for mid and small cap companies.

Conditions remained challenging at the beginning of 2009 as they had been in 2008. However, we had the advantage of starting 2009 in a relatively good position. In particular our market-making inventory was at the minimum level needed to provide a quality service. We also benefited from the fact that our institutional sales and research desks can cover overheads from secondary commission without needing to rely on the more cyclical primary business and from having a corporate finance business which is tightly run.

2009 was also the first full year for the excellent team we recruited in Edinburgh (formerly colleagues at Deutsche Bank some years ago), who have strong institutional relationships. We held a very successful formal opening of the new office in June 2009.

Overall the division performed strongly with income up by 67.2 per cent

We floated Equatorial Palm Oil plc on AIM in February 2010.

We acted for Birmingham City plc on the successful offer for the company.

compared to 2008. It was achieved principally by a strong revival in market-making. The increased revenue enabled the ECM division to grow its profitability very significantly. Profit before tax was £8.8m (up by 273.0 per cent on 2008), demonstrating the division's high operational gearing.

Research and Sales

The stock market began 2009 at a much lower level than its average of 2008. As a consequence holders of UK equities had, in aggregate, less under management. Although the market recovered significantly during 2009, the average value of aggregate equities holdings remained lower than 2008. Moreover, many open-ended funds saw redemptions in both 2008 and 2009 and in particular many hedge funds were much less active participants in equity trading, both because of redemptions and reduced use of leverage. Additionally, some fund managers increased the proportion of their trades which they executed directly in the market.

In this challenging environment, our team did well to hold revenue at broadly similar levels to 2008. This reflects the strength of our franchise and the quality of our product.

Market-making

As discussed above, our market-making activity started the year with a tight inventory position. As a result, it was able to benefit from the improving conditions and we experienced a strong rebound in activity in small cap share trading during the year. During the year we added to the team and have successfully begun making markets in selected mid cap stocks.

The improved performance shows the strength of our franchise in this area, dealing directly with the major retail brokers as a retail service provider through a broad range of electronic links and with the institutions active in small cap. We remain the second largest market-maker on AIM and the third largest on the London Stock Exchange by number of stocks covered.

As part of the programme of expanding our market-making activity we became one of the two houses committing to serve the new retail bond market recently launched by the London Stock Exchange.

Corporate Finance

We were able to close a number of significant transactions in 2009. These included a major and complex restructuring for Styles and Wood Group involving a debt for equity swap, a fund raising and an open offer. We acted for Birmingham City plc on the successful offer for the company made by Grandtop International Holdings and for Fabian Romania on the offer by Black Sea Global Properties. We also conducted placings for Orchid Holdings and The Hotel Corporation. Notably, we also concluded a small IPO for China Private Equity, reflecting the better sentiment in the Far East in the latter part of 2009.

Our corporate finance team has concluded four deals so far in 2010. We have advised on two takeovers: the purchase of control of WH Holding Limited, the parent company of West Ham United FC, by new shareholders Messrs Sullivan and Gold; and for coffeeheaven international plc on the offer for the company by Costa Limited, a subsidiary of Whitbread plc. We also conducted a further equity issue for Telford Homes plc and conducted one of the first flotations on AIM in 2010, Equatorial Palm Oil plc.

Alternative Assets, Investment Management and Principal Finance

Overview

The revenue of our alternative asset class fund management business increased by 12.6 per cent in 2009, growing 38.0 per cent over 2 years. Alex Abadie, formerly a Board Member of Credit Suisse Asset Management, joined on 25 March 2009 as CEO of Shore Capital Limited to implement our growth strategy in this activity.

Overall fund management performance, discussed in more detail below, was strong. In particular the hedge and alternative asset funds did particularly well: Puma Sphera had a sparkling gain of 38.8 per cent whilst our fund of funds PARF earned 15.5 per cent in its dollar class of shares and 14.6 per cent in its sterling class of shares. The Puma VCTs achieved resilient performance and at the end of the year made a number of successful realisations.

Our overall 13 year track record in alternative asset fund management is 15.8 per cent per annum. We therefore believe that the asset management business has a strong platform from which to grow, organically and by acquisition.

Chairman's Statement continued

The table opposite summarises the performance of the various funds we run, both absolute and relative return, for the calendar year 2009 where applicable and since inception.

Funds Under Management

Funds under management as at 31 December 2009 were £1.33 billion ($2.15 billion), compared to the £1.53 billion ($2.23 billion) at 31 December 2008.

Puma Hotels

Puma Hotels owns a portfolio of 20 UK four star hotel properties, mostly freehold, which were leased to Barceló Group on a 45 year lease in August 2007. In the summer of 2009 we successfully extended the maturity of its senior debt facilities by 3 years to 31 December 2012 on the basis of a waiver of the loan to value covenants during this term. In conjunction with the extension, we raised an additional £20m through a convertible preference share issue for Puma Hotels from the Company's shareholders and locked in favorable interest rates through new swaps. In a volatile and difficult credit market, this extension represents a key milestone and we are delighted to have secured such a large financing (£332.3m) on good terms.

Puma Hotels has an excellent portfolio, let to a strong tenant on an inflation-linked long term lease. It also benefits from a strong development pipeline for add-on facilities to hotels on land already owned, which can therefore be delivered at an attractive cost per room. It has recently received two significant planning consents. The first is consent to build a 107 bedroom lodge hotel in Harrogate on a prime site held freehold. The other is for the Barceló Old Ship Hotel in Brighton, to add an extra 42 bedrooms, create 248 sq m of modern conference facilities, a restaurant/bar with street frontage and revised car parking facilities.

The Puma VCTs funded the company which undertook the construction of the new Holiday Inn, Winchester.

Puma Absolute Return Fund ("PARF")

The performance of PARF during 2009 was strong, gaining 15.5 per cent for dollar investors. PARF began the year with the advantage of a restructured portfolio and considerable cash holdings. Once the worst of the bank crisis eased, we began to re-invest, but with a revised strategy to reflect the changed conditions. We therefore selected long-only closed-ended funds as well as hedge funds to take advantage of their lower fees and large discount to NAV. This strategy worked well. We are delighted to confirm that Morningstar, a leading rating agency, recently awarded the PARF dollar class a top rating of 5 stars.

We are planning to launch a variant of PARF in 2010 which will be more suitable to be marketed through independent financial advisers. The variant will comply with the UCITS 3 regulations, a requirement of many types of investor in Europe.

Puma Sphera

Sphera reverted to its previous outstanding performance after a loss of 11.1 per cent in 2008. It earned 38.8 per cent in 2009 and its IRR since inception is 14.7 per cent. It significantly out-performed the CS Tremont long/short index (which gained 19.5 per cent in the period), profiting from the manager's sound judgement and implementation of its long/short strategy.

Private Client Investment Management

Shore Capital's track record for private client investment management remains strong. Our balanced portfolio has out-performed its benchmark by 14.3 per cent from launch in February 2002 to 31 December 2009. In 2009 it gained 16.0 per cent, under-performing its benchmark by 0.5 per cent. Over the same 8 years to 31 December 2009 the growth portfolio also out-performed its benchmark by 30.3 per cent. In 2009 it under-performed the benchmark by 1.4 per cent, gaining 18.2 per cent.

Our "long only" range of products based on picking "best of breed" long only funds also had a good year. The growth orientated fund of funds has achieved 99.2 per cent growth since launch on 30 June 2003 to 31 December 2009 and out-performed its benchmark by 42.3 per cent. In 2009 it out-performed its benchmark by 1.6 per cent, gaining 27.0 per cent. The income-orientated fund of funds has achieved 36.8 per cent since launch at 30 June 2004 to 31 December 2009, but under-performed its benchmark by 2.0 per cent. In 2009 it gained 19.4 per cent, out-performing by 4.6 per cent.

Puma Venture Capital Trusts

Our strategy of concentrating upon qualifying investments with a lower risk profile and particularly on secured finance is paying off and the VCTs held their own in 2009. Puma VCTs I and II gained 7.1 per cent, Puma VCTs III and IV gained 3.7 per cent and Puma VCT V gained 5.0 per cent.

Around the turn of 2009, we achieved some significant successful realisations. Each of the VCTs is a 5 year life vehicle and we plan our investments with a view to achieving timely exits. To date we have, ahead of plan, returned 65p of the original 100p invested by shareholders in VCTs I and II, giving shareholders more than their original investment back including the 40p tax relief. We have further assets to liquidate and return in due course.

We are launching a new VCT, Puma High Income VCT, in this tax year. The new VCT is targeting to pay a dividend each year of 7 pence per share, equivalent to a 10 per cent tax free yield on the net investment by an investor obtaining initial tax relief. This fund will also be a 5 year fund, following a similar strategy to our existing VCTs.

St Peter Port Capital

As at 22 December 2009 St Peter Port Capital Limited ("St Peter Port") had realised £22.9m in cash from investee companies (about a third of the funds invested), generating a gain on investment of 37 per cent. At its half year end of 30 September 2009 it held 37 investee companies. Its NAV at the year end was 96.2p per share, down 1.7 per cent since flotation.

We believe that St Peter Port has weathered the tough conditions well by maintaining the net asset value of the portfolio. Many of its holdings have considerable upside potential in a portfolio of high risk/high reward companies. As at 22 December 2009, the fund had £10.4m to invest in new opportunities and follow-on investments. Competition is limited for new deals and it is therefore being offered these on attractive terms.

Fund Management Long Term Track Record

As previously, we have calculated the track record of our alternative asset class funds and structured finance since our first launch, Puma I, in 1996. Over this period of over 13 years, we calculate that the net return to investors from a composite of the vehicles was 15.8 per cent p.a.

Balance Sheet Holdings

When we reported our interims in August 2009, we stated that we were cautiously optimistic that the trend of successive downward valuations of our balance sheet investments has now run its

Returns from Absolute Return and Model Portfolio Products
Performance in 2009 and since Inception (net of management and performance fees)

Absolute Return Products	Inception Date	Asset type	Performance in 2009 %	IRR to Date % p.a.
Puma Absolute Return Fund	May 2003	Fund of hedge funds	14.6	6.5
Puma VCTs I and II[1]	Apr/May 2005	VCT	7.1	1.3/13.4 pre/post tax
Puma VCTs III and IV[1]	Apr/May 2006	VCT	3.7	(1.0)/13.9 pre/post tax
Puma VCT V	Apr/May 2008	VCT	5.0	3.3/27.5 pre/post tax
Puma Sphera	Dec 2006	Equity long/short	38.8	14.7
Puma Hotels plc[2]	July 2004	Hotels	2.1	17.4
St Peter Port Capital[2]	April 2007	Growth Capital	(6.3)	(0.5)

[1] Weighted composite of VCTs [2] Based on last published Net Asset Values

Model Portfolios	Inception Date	Asset type	Performance in 2009 %	IRR to Date % p.a.
Growth Portfolio	Feb 2002	Equities, bonds and unit trusts	18.2	4.5
Balanced Portfolio	Feb 2002	Equities, bonds and unit trusts	16.0	6.2
Multi-manager Growth Portfolio	July 2003	Unit trusts	27.0	11.2
Multi-manager Income Portfolio	July 2004	Unit trusts	19.4	5.9
AIM Inheritance Tax	July 2005	Equities	39.4	7.1

13 year track record	Inception Date	Asset type	Performance in 2009 %	IRR to Date % p.a.
Composite of funds	May 1996	Alternative asset class funds and structured finance	n/a	15.8

Chairman's Statement continued

course, although we recognised that the environment remained potentially highly volatile. We are pleased to report that there indeed was a positive return in this area in the second half of the year of £2.6m (excluding the change in the value of our pre-existing holding in PBL, which also increased by £3.4m as a consequence of our takeover proposal).

Puma Brandenburg

We established Puma Brandenburg, which invests in German real estate, in March 2006 and it is advised by our subsidiary, Puma Property Advisors Limited. Over its first three years, it acquired a portfolio of residential properties in Berlin and surrounding areas and commercial property throughout Western Germany.

On 25 September 2009 we acquired a large part of the remaining shares of PBL not already held by Shore Capital to give us a 94.97 per cent direct and indirect interest in the company. As a result, PBL has been a subsidiary of Shore Capital since that date and (as discussed above) these results include a contribution from Puma Brandenburg for just over 3 months of trading.

This acquisition was undertaken to give Puma Brandenburg a shareholder base which was able to provide it the strategic support necessary to enable it to capitalise upon the value of its assets in the longer term. However, as Puma Brandenburg is highly geared compared to the rest of the Group, on 18 February 2010 the Board put forward the proposal to de-merge the interest in it and list this separately as a property investment company on the Luxembourg Stock Exchange.

Puma Brandenburg's results

PBL owns a mixed portfolio including residential apartments (mostly in Berlin), offices, hotels and retail space. Virtually all the commercial property is in what was formerly West Germany. In total the commercial and residential portfolio comprises some 437,000 square metres.

PBL holds euro assets and reports its results in euros. As at 31 December 2009 the value of its property portfolio was €643m. In its own balance sheet it showed net assets of €75m.

PBL last reported its results in June 2009 for the year ended 31 March 2009. In the period from 1 April 2009 to 31 December 2009, the focus remained on asset management initiatives rather than expansion of the portfolio.

One of the key issues facing PBL at the beginning of 2009 was the insolvency of Sinn Leffers, the anchor tenant of the Zweibrücken shopping centre. I am pleased to report that in October 2009 PBL concluded a ten year lease with C&A who have agreed to take up just under 42 per cent of the retail space previously occupied by Sinn Leffers. As part of the lease, PBL agreed to undertake €1.9m of renovation work which will be fully funded by the project's current bankers. I am also very pleased to announce that, following the year end, PBL completed the renegotiation of a lease with one of the shopping centre's large tenants, Mister Lady, under which the tenant has agreed to expand its premises by over 100 per cent, and to extend the term of the lease by a further five years. Both these deals were obviously critical to underpinning PBL's investment in this sub-portfolio and the team is to be congratulated.

PBL continues to perform well with its residential portfolio, mainly located in Berlin. Residential vacancies at the Sonnensiedlung Estate in Neukölln are now 2.4 per cent, an all time low since PBL took over the estate in September 2006, when residential vacancies were 15.61 per cent. Annualised rental income is currently €6.9m versus €5.6m at September 2006 and this increase in rental income, combined with massive costs savings, means that net income derived from the estate has risen approximately 43.1 per cent since PBL acquired it.

PBL continued its project 100 initiative (being the refurbishment of certain residential apartments) and to date, a total of 97 residential units have been refurbished, of which 98 per cent have been rented out at an average rent of €6.03 per square metre, approximately 17 per cent higher than comparable units which have not been refurbished. Also, sales of apartments at the Mendelsohn sub-portfolio, comprising two buildings off the Kurfürstendamm in West Berlin, continue and to date we have sold 26 apartments to owner occupiers and retail investors.

Towards the end of the period, a cash trap was imposed by the agent in respect of our loan on the Lurgi Haus property in Frankfurt. The imposition of this cash trap means that net income (or income from rent after interest and hedging costs) is not released to the borrower, but instead is used by the Bank to amortise the outstanding loan. We are disputing the agent's decision to invoke this provision.

PBL previously reported that Hyatt, its tenant, had planned to spend approximately €6m refurbishing the 311 room hotel in Cologne. To date, 3 (of 7) guest floors have been refurbished, giving a much more contemporary feel to the hotel. Completion of the guest floor refurbishment program is due to be completed in June this year, following which the hotel will carry out refurbishment work on its ballroom and lobby. We believe the overall effect will strongly benefit the hotel's trading and therefore its value.

Shore Capital and the minority PBL shareholders have agreed to subscribe an additional £5m into PBL by way of a rights issue prior to the demerger becoming effective. This equity will bolster the company's balance sheet.

Scheme of Arrangement

The proposals to separate the interest in Puma Brandenburg from Shore Capital Group involve establishing new holding companies, Shore Capital Group Limited and Puma Brandenburg Holdings Limited, to hold the two separated businesses, financial services and German investment property.

As previously announced on 18 February 2010, the proposals also involve creating a split capital structure in Puma Brandenburg Holdings Limited. As a result, if shareholders vote to implement these proposals, they will own three distinct securities for each one share they currently own in Shore. These three securities will be:

- a share in Shore Capital Group Limited, which will own all of Shore's current interests in the Shore group of companies, other than its investment in Puma Brandenburg. It is intended to apply for Shore Capital Group Limited's shares to be admitted to trading on AIM;
- an "income" share in Puma Brandenburg Holdings Limited which will own the investment in Puma Brandenburg previously owned by Shore Capital Group. This share will entitle its holders to all dividends and other distributions of an income nature paid by this company; and
- a "capital" share in Puma Brandenburg Holdings Limited, which will entitle its holders to all returns of capital made by this company.

In the case of Puma Brandenburg Holdings Limited, it is intended that both its "income" and "capital" shares will be listed on the Luxembourg Stock Exchange. The result will be that shareholders will own three distinct, stock exchange traded securities giving them exposure to (i) the financial services industry, (ii) the income generated from a German property portfolio and (iii) the capital assets comprising the German property portfolio.

The proposals involve establishing a new board of Shore Capital Group Limited. Upon implementation of the proposals, the board of Shore Capital Group plc (which will become a subsidiary of Shore Capital Group Limited) will consist solely of executive directors with the non-executives retiring. Dr Zvi Marom has been appointed to the new Shore Capital Group Limited board. Barclay Douglas, however, is leaving the Group after 10 years of service. I would like to offer my thanks to Barclay for all he has done for the Group, including being instrumental in the acquisition of the Charterhouse team in 2003. I have no doubt he can be of great service as a non-executive to other companies and we all wish him well for the future.

Track Record for Shareholders Over the Last Decade

We have calculated our track record of delivering growth in total return to shareholders, measured by the growth in net asset per share and the accumulated dividends paid, over the decade from 1 January 2000 to 31 December 2009. We are pleased to report that the return was 40.7 per cent p.a., the highest of our peer group of quoted investment houses.

Employees

I should like to thank our employees for their commitment and hard work during the year. In an incredibly volatile year for the investment markets, they are to be congratulated on achieving strong operational profitability in both ECM and Asset Management.

Current Trading and Prospects

To date in 2010, the business has performed in line with last year. The capital markets are pricing in lower risk premia in 2010 than in 2009, yet many of the inherent risks remain. Thus, whilst it is still early in the year, we are more cautious about the investment climate in 2010.

Our balance sheet is strong with a high level of liquidity and we believe we are well placed to continue to grow our business. The strong performance we have achieved over the last decade gives support to our belief that we can continue to prosper.

Howard P Shore
Chairman

23 March 2010

Board of Directors

Howard Shore
Executive Chairman

Howard Shore, 49, founded Shore Capital in 1985. He began his career in private client discretionary fund management with Grieveson Grant & Co (later part of Dresdner Kleinwort Wasserstein). After obtaining a degree in Economics from Cambridge, he worked as a financial futures broker when LIFFE was being established. He is responsible for the strategy and asset allocation of the Group. He is also the Chairman of Puma Hotels plc and a director of Puma Brandenburg Holdings Limited.

Graham Shore
Group Managing Director

Graham Shore, 53, joined Shore Capital in 1990 as Group Managing Director. He was previously a partner in the management consultancy division of Touche Ross (now Deloitte LLP) and responsible for the London practice advising the telecommunications and new media industries. After a degree in PPE from Oxford and a Master's degree in Economics from the LSE, he worked for the Government as an economic adviser including several years undertaking industry studies. His responsibilities include being chairman of Shore Capital and Corporate Limited. He is also a director of St Peter Port Capital Limited, the pre-IPO fund, and each of the Puma VCTs.

Michael van Messel
Operations Director

Michael van Messel, 45. After a degree in Physics at Imperial College, London, he joined Hacker Young and qualified as a Chartered Accountant. He then worked as a specialist in their tax department and subsequently for Coopers & Lybrand within its financial services group. He joined Shore Capital in 1993 as Group Financial Controller and became Operations Director in 2000. He is responsible for all operations including finance and compliance.

Jonathan Paisner
Director – Group Legal Counsel

Jonathan Paisner, 40. After obtaining a degree in French from Oxford University, he started his career as a solicitor in the corporate finance department of Berwin Leighton. Prior to joining Shore Capital in 2002 he was a director of a start-up venture capital and corporate finance boutique. Jonathan, who as Group Legal Counsel is also responsible for the Group's legal affairs, is primarily involved in the Group's asset management and principal finance divisions, is co-head of the Berlin office and is also a director of Puma Hotels plc.

Barclay Douglas
Non-executive Director

Barclay Douglas, 54, qualified as a chartered accountant with Arthur Andersen after gaining a degree in Law. He has over 10 years' experience in private equity, having been a director of both Murray Johnstone and Mercury Private Equity (Hg Capital). During that time he represented investors on the boards of several private and public companies. He now operates as a non-executive director of both public and private companies and assists companies to raise capital. Barclay is Chairman of The Hotel Corporation plc, Cascade Care Group Limited and Parallel Options Holdings Limited.

He chairs the Audit Committee and the Remuneration Committee.

Dr Zvi Marom
Non-executive Director

Dr Marom, 55, is founder and CEO of BATM Advanced Communications Limited. A former first lieutenant in the Israeli Navy, he graduated first (with excellence) in electronics from the Naval Academy and first (with excellence) from the Advanced Naval Command Course. He has a post-graduate degree in medicine from the Sackler School of Medicine, Israel and an MSc in industrial electronics. Dr Marom is on the boards of several national and international academic committees for computing and communications. He has close links with the Israeli Chief Scientist's Office and with Governmental bodies funding research for Israeli high tech companies.

He is a member of the Audit Committee and the Remuneration Committee.

Senior Management

Simon Fine
Head of Equity Capital Markets

Simon Fine, 45, joined Shore Capital in 2002 as Managing Director of Equity Capital Markets, responsible for all aspects of trading and brokerage as well as the integration of related corporate broking activities. He is the former Managing Director and Co-Head of Pan European Equity Cash Trading at Lehman Brothers. Prior to that, Simon spent the previous 14 years at Dresdner Kleinwort Benson, most recently as Head of Pan European Equity Cash Trading – developing its UK operations into one of the leading players in the UK and German equities.

Dr Clive Black
Head of Research

Dr Clive Black, 46, is one of the highest ranked analysts covering the UK food & drug retail sector. He has also been rated No.1 for small & mid-cap food retail research. Clive holds a Ph.D from The Queen's University of Belfast on the Northern Ireland food industry. He followed this to become Head of Food Policy at the NFU in London before joining Northern Foods plc. He moved into equity research with Charterhouse Tilney in Liverpool where he then became Head of Pan-European Retail research when it was acquired by ING Financial Markets. He joined Shore Capital in 2003 as Head of Research.

Eamonn Flanagan
Head of the Liverpool Office

Eamonn Flanagan, 46, is one of the UK's top ten stockbroking analysts in the insurance and specialty finance sectors, and was rated second for coverage of smaller companies in these sectors in the last Reuters' survey. After a degree in mathematics, he qualified as an actuary with Royal Insurance where he worked for nine years; he is now a Fellow of the Institute of Actuaries. He moved into stockbroking research with Charterhouse Tilney where he was for nine years when it latterly became ING Financial Markets. He joined Shore Capital in 2003 as head of the Liverpool office.

Rupert Armitage
Head of Stockbroking sales

Rupert Armitage, 45, joined Shore Capital in 1988 after a degree in management and a period working in his family's business. He leads the institutional sales team, but is also qualified as a registered market-maker. He became a director of Shore Capital Stockbrokers in 1995.

Alex Abadie
Head of Asset Management

Alex Abadie, 45, joined Shore Capital Limited as CEO in 2009. Immediately prior, he was a Managing Director and management committee member of Credit Suisse's Asset Management Division, responsible globally for structuring all new investment products and providing customised solutions to insurance and pensions clients, and a board member of Credit Suisse Asset Management Ltd. He was previously a Managing Director at Morgan Stanley. Alex has a Masters from Stanford, MBA from Chicago and SMG from Harvard. He chairs the Investment Committee of Shore Capital Limited.

Thomas Marlinghaus
Shore Capital Germany – Chief Operating Officer

Thomas Marlinghaus, 52, graduated with a degree in business administration and began his career at Berliner Bank, where he became an investment manager in the bank's private equity unit. In 1995, he joined a family-owned private equity and management group as managing director. In this role, Thomas acted as the CFO of ProMarkt, at the time Germany's second largest consumer electronic retail chain, which was sold to Kingfisher in 1998. Thomas was also directly responsible for identifying acquisition and disposal opportunities including in real estate. Thomas is Chief Operating Officer of Shore Capital's German team and also responsible for asset management.

Corporate Governance

General

The Group is committed to the principles of corporate governance contained in the Combined Code on Corporate Governance which was issued in 2006 by the Financial Reporting Council ('the Code') in relation to matters for which the board is accountable to shareholders.

The Group has applied the principles set out in section 1 of the Code, including both the main principles and the supporting principles, by complying with the Code as reported above. Further explanation of how the principles and supporting principles have been applied is set out below and in the Directors' remuneration report.

Board of Directors

On 18 February 2010, Shore Capital Group plc announced proposals involving a scheme of arrangement (the "scheme") relating to the corporate structure and organisation of the Group. These proposals include demerging the Group's interest in Puma Brandenburg and establishing new holding companies, Shore Capital Group Limited and Puma Brandenburg Holdings Limited, to hold the two separated businesses. The proposals also involve creating a split capital structure in Puma Brandenburg Holdings Limited. The scheme proposals were approved by shareholders at a meeting held on 8 March 2010 and, subject only to sanction by the Court, it is anticipated that the proposals will become effective on 26 March 2010.

Upon the scheme becoming effective, Mr J B Douglas and Dr Z Marom will resign from the Board and the company will become a wholly owned subsidiary of Shore Capital Group Limited.

The following information applies in respect of the Board up to the time of the scheme becoming effective.

The Board currently comprises four executive and two non-executive directors. It carries ultimate responsibility for the conduct of the business of the Group. The Board maintains full control and direction over appropriate strategic and financial issues through regular meetings and reports to ensure that the Board is supplied with all the information it needs. The Board considers both of the non-executive directors, Mr J B Douglas and Dr Z Marom, to be independent in character and judgement. Whilst both own shares in the Company, they each have significant other business interests and activities. The Board as a whole considers their shareholdings in the Company to be an advantage for the shareholders as in addition to their fiduciary duties, their interests are aligned with shareholders generally. Neither of the non-executive directors participate in the Shore Capital Group plc Share Option Scheme. The terms and conditions of appointment of the non-executive directors are available for inspection by any person at the Group's registered office.

The directors provide the Group with the knowledge, mix of skills, experience and networks of contacts required. The non-executive directors combine breadth of business and commercial experience with independent and objective judgement. The combination of non-executive and executive directors enables the Board to provide effective leadership and maintain a high standard of integrity across the Group.

In relation to those arrangements which do not comply with the Code, these largely arise as a consequence of the size of the Company and of the Board. The Board believes that the arrangements it has in place are appropriate for a group of its size and nature, and in particular notes that the Quoted Companies Alliance does not consider it necessary for smaller public companies to have three non-executive directors.

Mr H P Shore is Executive Chairman of the Board and also undertakes the function of full-time Chief Executive. In view of the size and nature of the Group, the Board does not consider it in the best interests of the Group to split the roles. The Executive Chairman has no significant executive commitments other than those which are related to the activities of the Group (including sitting on the investment committee or boards of vehicles promoted by the Group). The Board has two committees, the Remuneration Committee (see directors' remuneration report) and the Audit Committee (see below). The Board does not have a Nominations Committee or a senior independent director. This is because with two non-executive directors and a Board of only 6 in total, nominations can be readily handled without a committee by the Board as a whole, whilst both non-executive directors are accessible to shareholders in the event of issues arising.

The Board has an informal annual review process to assess how each of the Directors is performing. The performance of executive directors is individually reviewed by the Chief Executive against previously agreed objectives and his performance is in turn appraised by the non-executive directors. Remuneration is directly linked to these reviews and determined by the Remuneration Committee. Remuneration is set at the level required to attract, retain, and motivate high calibre directors and a significant proportion of total remuneration is linked to corporate and individual performance.

The Chief Executive ensures that directors receive accurate, timely and clear information. Directors are encouraged to update their skills, knowledge and familiarity with the Group through initial induction and ongoing participation at Board and committee meetings. Views of clients and shareholders are shared through Board presentations. The Board is updated regularly on governance and regulatory matters.

The Board met six times during 2009. The number of meetings of the Board and the Audit and Remuneration Committees and individual attendance by members is set out below:

	Board	Audit	Remuneration
Total number of meetings in 2009	**6**	**3**	**2**
Number of meetings attended in 2009			
H P Shore	6	–	–
G B Shore	6	3	–
M L van Messel	6	–	–
J S Paisner	6	–	–
J B Douglas	6	3	2
Dr Z Marom	6	3	2

The Board has a formal schedule of matters reserved for its decision and delegates certain matters to committees as set out below. The Board determines the Group's overall strategy; creation, acquisition or disposal of material corporate entities and investments; development and protection of the Group's reputation; public announcements including statutory accounts; significant changes in accounting policy, capital structure and dividend policy, operating plans and review of key performance indicators, resolution of litigation, Group remuneration policy and Board structure, composition and succession.

Audit Committee

The Board has appointed an Audit Committee with written terms of reference. The terms of reference of the Audit Committee are available for inspection by any person at the Group's registered office during normal business hours and for fifteen minutes prior to and during the forthcoming Annual General Meeting. It comprises two non-executive directors, Mr J B Douglas and Dr Z Marom, together with Mr G B Shore, and is chaired by Mr J B Douglas. Although Mr Shore is an executive director of the Group whose presence on the committee does not comply with the letter of the Code, he is not involved as an executive in the day to day affairs of the Group's stockbroking subsidiary where many of the most important and significant issues of financial control arise. The Board therefore considers the composition of the committee appropriate given the size of the group. The Audit Committee undertakes a detailed review of the Company's half yearly and annual financial reports, is responsible for reviewing whether the accounting policies are appropriate and for monitoring internal compliance and external audit functions including the cost effectiveness, independence and objectivity of the auditors. The committee meets periodically with the auditors to receive a report on matters arising from their work.

The committee receives a report from the external auditors concerning their internal processes to ensure that the independence and objectivity of the auditors are safeguarded at all times. The committee is satisfied that the safeguards and procedures established by the auditors are sufficient to counter threats or perceived threats to their objectivity at all times.

Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on pages 4 to 11, together with the financial position of the group, its liquidity position and borrowing facilities. In addition note 24 to the financial statements includes policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The group has considerable financial resources together with an established business model. As a consequence, 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 company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Internal control

In accordance with Principle C.2 of the Code, the Board of Directors has overall responsibility for the Group's systems of internal controls, including financial, operational and compliance, which are designed to provide reasonable, but not absolute, assurance against material misstatement or loss and comply with the Turnbull guidance. The controls are used in identifying, evaluating and managing significant risks of the Group on an ongoing basis. These internal controls have been in place from the start of the year through to the date of approval of this report. They include:

- ensuring that an appropriate organisational structure exists with clear lines of responsibility and delegation of authority;
- the allocation of responsibility for important business functions to experienced and suitably qualified staff;
- detailed budgets and plans which are approved by the Group Board;
- regular consideration by the Board of actual results compared with budgets and forecasts;
- compliance by subsidiaries with Group operating procedures and policies;
- annual review of the Group's insurance cover;
- defined procedures for the appraisal and authorisation of capital expenditure and capital disposals; and
- regular reporting of the Company's liquidity position.

The Board has carried out an annual review of the effectiveness of the Group's systems of internal financial control. In addition, it has considered the need to introduce a group internal audit function but has decided that it is inappropriate for a Group of this size. It should be noted that many of the activities which would be covered by such a function are already carried out as part of the compliance function.

Relations with shareholders

The Group communicates with shareholders through both the interim and annual reports. In addition all shareholders may attend the Group's Annual General Meeting where they may raise matters relating to their shareholdings and the business of the Group.

Communication with the Group's largest institutional shareholders is undertaken as part of the Group's investor relations programme and any feedback arising is provided to the Board.

Directors' Remuneration Report

Introduction

This report has been prepared in accordance with Section 420 of Chapter 6 of the Companies Act 2006. Although the company is no longer listed on the Official List, the report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the board has applied the Principles of Good Governance relating to directors' remuneration. A resolution to approve the report will be proposed at the Annual General Meeting of the company at which the financial statements will be approved.

The Regulations require the auditors to report to the company's members on the "auditable part" of the directors' remuneration report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 2006. The report has therefore been divided into separate sections for information that is required to be audited and information that is not required to be audited.

Information not required to be audited:

Remuneration Committee

The Board has appointed a Remuneration Committee which comprises two non executive directors, Mr J B Douglas and Dr Z Marom, and is chaired by Mr J B Douglas. The terms of reference of the Remuneration Committee are available for inspection by any person at the Group's registered office during normal business hours. The Remuneration Committee has given full consideration to Section B of the Best Practice Provisions annexed to the Listing Rules of the UK Listing Authority. The principal function of the Remuneration Committee is to determine the Group's policy on executive remuneration. It makes its decisions in consultation with the Chairman and Chief Executive. No director plays a part in any decision about their own remuneration. The Committee meets periodically when it has proposals to consider and in any event no less than once each year.

The main aim of the committee's policy is to attract, retain and motivate high calibre individuals with a competitive remuneration package. Remuneration for executives comprises basic salary, performance related bonus, pension benefits, other benefits in kind and options granted pursuant to the Shore Capital Group plc Share Option Plan. No director has a service contract for longer than 12 months.

Basic salary

An executive director's basic salary is determined by the Committee in respect of each year and when an individual changes position or responsibility. In deciding appropriate levels, the Committee considers the Group as a whole and relies on objective research which gives up-to-date information on a comparator group of companies which comprises a number of companies within the sector as well as a number of companies in different sectors with comparable capitalisation. Executive directors' contracts of service which include details of remuneration will be available for inspection at the Annual General Meeting.

In addition to basic salary, the executive directors receive certain benefits-in-kind, which comprise in each case some of the following: a car, private medical insurance and pension contributions.

In the event that an executive director accepts an outside directorship in the course of their work and in respect of which the director is entitled to receive a fee, such fee is recognised as income of the Group and not retained by the director personally. Where the Group makes payments to third parties as part of the remuneration of one of its directors, such payments are included within the total remuneration disclosed in respect of that director.

Annual bonus payments

In establishing suitable objectives that must be met for each financial year for a cash bonus to be paid, the Committee believes that any incentive compensation awarded should be tied to the interests of the company's shareholders and that the principal measure of those interests is Group profitability. In addition, when setting appropriate bonus parameters the Committee is mindful of executive rewards in a comparator group of companies as noted above. The company operates in the investment banking sector where it is the norm for overall remuneration for professionals to include substantial bonuses when business performance is good. This compensates for modest basic salaries and the risk of low or no bonus in the event of difficult market conditions. Account is also taken of the relative success of the different parts of the business for which the executive directors are responsible and the extent to which the strategic objectives set by the Board are being met.

Pension arrangements

The company does not operate a final salary pension scheme. Executive directors who are entitled to receive pension contributions may nominate a defined contribution pension scheme into which the company makes payments on their behalf.

Share options

Details of the Shore Capital Group plc Share Option Plan as well as directors' interests in the Share Option Plan are given in note 6 to the financial statements. The Committee has responsibility for supervising the scheme and the grant of options under its terms.

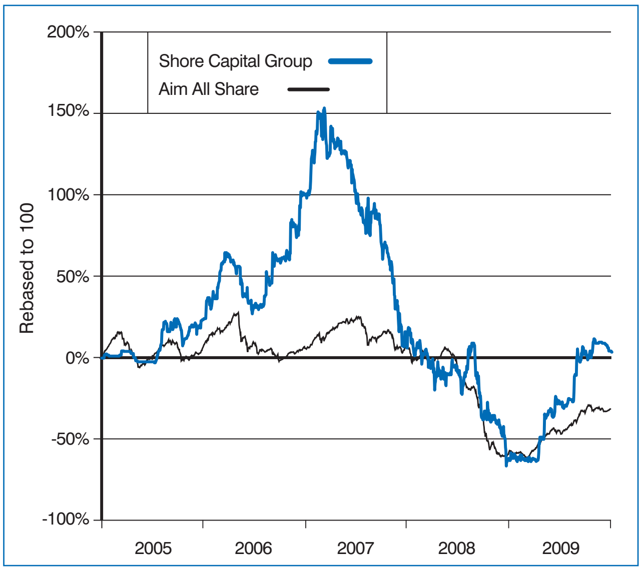
The exercise price of the options granted under the above scheme is no less than the market value of the company's shares at the time when the options are granted. Options granted under the Share Option Plan are subject to vesting periods which are based on continuing service. Thereafter the options may be exercised for the rest of their 10 year life without further test.

The company's policy is to grant options to directors at the discretion of the Committee taking into account individual performance and responsibilities.

The company does not operate any long-term incentive schemes other than the share option scheme described above. No significant amendments are proposed to be made to the terms and conditions of any entitlement of a director to share options.

Performance graph

The following graph shows the company's performance, measured by total shareholder return, compared with the total return from the AIM-All Share Index. This index has been selected for this comparison because the Group is now listed on AIM and the index comprises a broad range of companies including small to mid-size listed companies.



Non-executive directors

Where non-executive directors receive remuneration, they have specific terms of engagement and their remuneration is determined by the Board and based on independent surveys of fees paid to non-executive directors of similar companies. Non-executive directors' contracts of service which include details of remuneration will be available for inspection at the Annual General Meeting.

Directors' contracts

The company issues service contracts to its executive directors with a maximum of one year's notice. Currently, all the executive directors have contracts which are subject to six months' notice by either party. The service contract of Mr J B Douglas, a non-executive director, provides for one year's compensation in the event of a takeover of the company. The dates of the directors' contracts are as follows:

Name of director	Date of contract
H P Shore	18 December 1997
G B Shore	18 December 1997
M L van Messel	25 September 2000
J S Paisner	29 October 2002
J B Douglas	27 June 2000
Dr Z Marom	5 April 2000

Audited information:

Directors' emoluments

Details of all directors' emoluments are given in note 6 to the financial statements.

Directors' share options

Details of directors' interests in the Shore Capital Group plc Share Option Plan are given in note 6 to the financial statements.

Directors' pension entitlements

Details of contributions to money purchase schemes on behalf of directors are given in note 6 to the financial statements.

Approval

This report was approved by the Board of Directors and signed on its behalf by:

M L van Messel
23 March 2010

Directors' Report

The directors present their annual report and the audited financial statements of the Group for the financial year ended 31 December 2009.

Activities and business review

The principal activities of the Group consist of investment banking, including stockbroking, market making, corporate finance advice, asset management, specialist fund management and property investment. Given the extreme volatility in markets, in December 2008 the Board decided to cease its trading activity within Shore Capital Trading Limited.

A review of the year and future developments is contained in the Chairman's statement on pages 4 to 11. The statement also includes details of the key performance indicators which management use.

Results and dividends

The results for the financial year are set out on page 22. An interim dividend of 0.25p per share (2008: 0.25p) was paid during the year. The directors propose a further interim dividend of 0.625p per share (2008: final dividend of 0.05p) making a total for the year of 0.875p per share (2008: 0.30p).

Capital structure

Details of the authorised and issued share capital, together with details of the movements in the company's issued share capital during the year are shown in note 23 of the financial statements. The company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the company.

There are no restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provision of the Articles of Association. No person has any special rights of control over the company's share capital and all issued shares are fully paid. Under its Articles of Association, the company has an authorised share capital of 625,000,000 ordinary shares.

Fixed assets

Movements in fixed assets are set out in note 14 to the financial statements.

Risk management

The Group's policies for managing the risks arising from its activities, including the use of derivative instruments, are set out in note 24. The Group's activities comprise equity market activities and investment in alternative assets and property, and its income is therefore subject to the level of general activity, sentiment and market conditions in each of the markets in which it operates.

Directors

The directors who served the company during the financial year and their beneficial interests in the ordinary shares of the company were:

	2p ordinary shares	
	31 December 2009	31 December 2008
H P Shore	**100,147,359**	100,147,359
G B Shore	**21,652,820**	21,652,820
M L van Messel	**3,506,865**	2,664,042
J S Paisner	**900,000**	700,000
Dr Z Marom	**501,521**	501,521
J B Douglas	**1,250,000**	1,000,000

The beneficial interests of the directors in share options over ordinary shares of the company are set out in note 6f to the financial statements.

The company makes qualifying third-party indemnity provisions for the benefit of its directors which are in force at the date of this report.

Charitable and political donations

The Group made charitable donations of £66,000 (2008: £95,000) during the year. No political donations were made during the year (2008: £nil).

Acquisition of the company's own shares

Details of shares repurchased during the year are set out in note 23.

Events after the balance sheet date

Details of significant events since the balance sheet date are set out in note 27.

Going concern

The group's liquidity position is set out in note 18 and its borrowing facilities in note 20. In addition note 24 includes details of policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The group has considerable financial resources together with an established business model. As a consequence, 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 company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Environmental policy

The Group aims wherever appropriate to be environmentally conscious. During the year, it recycled a large amount of waste paper and arranged for used printer cartridges and office furniture to be collected for recycling and environmentally sound disposal. It has adopted low energy lighting systems where appropriate.

Supplier payment policy

The policies which the company and Group followed for the payment of suppliers in the financial year were:

a) for market creditors arising in respect of trades in securities, payment is made on the later of intended settlement date for the transaction or receipt of stock; and

b) for other suppliers, payment is made within the later of 45 days after receipt of the invoice or 45 days after receipt of the goods or services concerned. Creditor days of the Group at the year end were 13 days (2008: 26 days).

Major shareholdings

Other than directors, the following shareholders had notified the company of holdings of 3% or more of the shares of the company as at 22 March 2010:

	Ordinary Shares	%
The Mercantile Investment Trust Plc	24,405,543	9.95
Aralon Resources	14,083,000	5.74

Auditors

Each of the persons who is a director at the date of approval of this annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all the steps which they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s485 of the Companies Act 2006.

On 18 February the Company announced proposals involving a scheme of arrangement (the "scheme") relating to the corporate structure and organisation of the Group. When the scheme proposals take effect, the Company will become an unquoted subsidiary of another company, Shore Capital Group Limited. It is anticipated that Ernst & Young LLP will be appointed as auditors to Shore Capital Group Limited and its subsidiaries.

By order of the Board

J S Paisner
Secretary
23 March 2010

Bond Street House
14 Clifford Street
London W1S 4JU

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable United Kingdom law and regulations.

The directors are required to prepare Group financial statements for each financial year, in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRS) as adopted by the European Union, which present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period. In preparing those financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8: "Accounting Policies, Changes on 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 in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company'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
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

Under that United Kingdom company law the directors have elected to prepare the Parent Company 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 Parent Company and of the profit or loss of the Parent 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that its 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 Shore Capital Group plc

We have audited the financial statements of the group and the parent company financial statements for the year ended 31 December 2009 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Statement of Financial Position and the Parent Company Balance Sheet, the Group and Parent Company Statement of Changes in Equity and the Group Cash Flow Statement and the related notes 1 to 27. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Generally Accepted Accounting.

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 auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 20, 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 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.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2009 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept 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.

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

23 March 2010

Consolidated Income Statement

For the year ended 31 December 2009

	Notes	Continuing operations 2009 £'000	Operations being demerged 2009 £'000	Total 2009 £'000	Total 2008 £'000
Revenue	1, 2	38,988	–	38,988	19,652
Administrative expenditure		(28,352)	–	(28,352)	(21,268)
Operating profit/(loss)	3	10,636	–	10,636	(1,616)
Interest income	4	554	–	554	1,985
Finance costs	5	(659)	–	(659)	(1,637)
Negative goodwill on the acquisition of PBL	26	–	63,146	63,146	–
		(105)	63,146	63,041	348
Profit/(loss) before taxation	2	10,531	63,146	73,677	(1,268)
Taxation	7	(2,108)	–	(2,108)	1,635
Profit for the year after taxation including negative goodwill but excluding profit from operations being demerged		8,423	63,146	71,569	367
Profit after tax from PBL	26	–	3,497	3,497	–
Retained profit for the year		8,423	66,643	75,066	367
Attributable to:					
Equity holders of the parent				69,750	40
Minority interests				5,316	327
				75,066	367
Earnings per share					
Basic	10			27.18p	0.01p
Diluted	10			26.49p	0.01p

Statement of Comprehensive Income

For the year ended 31 December 2009

	Continuing operations 2009 £'000	Operations being demerged 2009 £'000	Total 2009 £'000	Total 2008 £'000
Profit for the year	8,423	66,643	75,066	367
Gains on revaluation of available-for-sale investments taken to equity	3,457	–	3,457	–
Gains/(losses) on cash flow hedges	369	1,349	1,718	(1,090)
Income tax	(103)	–	(103)	305
	266	1,349	1,615	(785)
Transferred to profit and loss on sale of available-for-sale investments	–	–	–	28
Exchange difference on translation of foreign operations	(223)	(1,374)	(1,597)	602
Other comprehensive income for the year, net of tax	43	(25)	18	(155)
Total comprehensive income for the year, net of tax	11,923	66,618	78,541	212
Attributable to:				
Equity holders of the parent			73,212	(204)
Non controlling interests			5,329	416
			78,541	212
Earnings per share				
Basic			28.53p	(0.07p)
Diluted			27.80p	(0.07p)

Consolidated Statement of Financial Position

As at 31 December 2009

	Notes	2009 £'000	2008 £'000
Non-current assets			
Goodwill	13	381	381
Property, plant & equipment	14	12,687	15,003
Available-for-sale investments	6.c, 15	11,262	760
Deferred tax asset	7	1,598	834
		25,928	16,978
Current assets			
Bull positions and other holdings designated at fair value	16	10,996	30,619
Trade and other receivables	17	34,730	16,375
Cash and cash equivalents	6.c, 18	60,028	48,655
		105,754	95,649
Assets to be demerged	26	578,815	–
		684,569	95,649
Total assets	2	710,497	112,627
Current liabilities			
Bear positions		(3,243)	(857)
Trade and other payables	19	(21,486)	(13,485)
Derivatives		(749)	(2,366)
Tax liabilities		(3,378)	(1,575)
Borrowings	20	(329)	(370)
		(29,185)	(18,653)
Non-current liabilities			
Borrowings	20	(25,436)	(27,091)
Provision for liabilities and charges	21	(729)	(19)
		(26,165)	(27,110)
Liabilities associated with the assets to be demerged	26	(512,197)	–
		(538,362)	(27,110)
Total liabilities	2	(567,547)	(45,763)
Net Assets		142,950	66,864
Equity			
Capital and Reserves			
Called up share capital	23	5,590	5,856
Share premium account		20,112	19,956
Capital redemption reserve		1,511	1,228
Own shares	23	(9,070)	(9,351)
Other reserves		5,744	712
Retained earnings		47,448	45,657
Reserves associated with the assets to be demerged		63,267	–
Equity attributable to equity holders of the parent		134,602	64,058
Non controlling interest		4,997	2,806
Non controlling interest associated with the assets to be demerged		3,351	–
Total equity		142,950	66,864

Approved by the Board of Directors on 23 March 2010. Signed on behalf of the Board of Directors

H P Shore
Director

M L van Messel
Director

Company Balance Sheet

As at 31 December 2009

	Notes	2009 £'000	2008 £'000
Non-current assets			
Property, plant & equipment	14	103	133
Investments in subsidiaries	15	39,846	49,106
Deferred tax asset	7	1,763	51
		41,712	49,290
Current assets			
Trade and other receivables	17	51	59
Amounts owed by subsidiary undertakings		42,492	51,078
Tax receivable		3	–
Cash and cash equivalents	18	15,027	245
		57,573	51,382
Total assets		99,285	100,672
Current liabilities			
Trade and other payables	19	(1,837)	(1,123)
Amounts owed to subsidiary undertakings		(4,038)	(2,379)
Tax liabilities		–	(1,228)
Loan from subsidiary		(35,784)	(44,137)
Bank overdrafts	18	–	–
		(41,659)	(48,867)
Non-current liabilities			
Borrowings	20	(15,000)	–
Provision for liabilities and charges	21	(729)	(19)
Total liabilities		(57,388)	(48,886)
Net Current Assets		15,914	2,515
Net Assets		41,897	51,786
Equity			
Capital and Reserves			
Called up share capital	23	5,590	5,856
Share premium account		20,112	19,956
Capital redemption reserve		1,511	1,228
Own shares	23	(9,070)	(9,351)
Other reserves		1,443	261
Revaluation reserve		5,596	5,596
Retained earnings		16,715	28,240
Total equity		41,897	51,786

Approved by the Board of Directors on 23 March 2010. Signed on behalf of the Board of Directors

H P Shore
Director

M L van Messel
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Own shares £'000	Other Reserves £'000	Retained earnings £'000	Non controlling interest £'000	Total £'000
At 31 December 2007	6,058	19,477	971	(1,195)	1,196	51,216	4,614	82,337
Retained profit for the year	–	–	–	–	–	40	327	367
Credit in relation to share-based payments	–	–	–	–	116	–	–	116
Transfer to income on sale of AFS investments	–	–	–	–	28	–	–	28
Foreign currency translation	–	–	–	–	–	356	246	602
Deferred tax charge recognised directly in equity	–	–	–	–	–	(1,278)	–	(1,278)
Valuation change on cash flow hedges	–	–	–	–	(628)	–	(157)	(785)
Equity dividends paid	–	–	–	–	–	(1,628)	–	(1,628)
Shares issued in respect of options exercised	55	479	–	–	–	–	–	534
Repurchase/cancellation of own shares	(257)	–	257	(8,156)	–	(3,049)	–	(11,205)
Repurchase of shares in subsidiaries from non controlling interests	–	–	–	–	–	–	(343)	(343)
Dividends paid to non controlling interest	–	–	–	–	–	–	(1,881)	(1,881)
At 31 December 2008	5,856	19,956	1,228	(9,351)	712	45,657	2,806	66,864
Retained profit for the year	–	–	–	–	–	69,750	5,316	75,066
Credit in relation to share-based payments	–	–	–	–	297	–	–	297
Valuation change on cash flow hedges	–	–	–	–	213	–	53	266
Foreign currency translation	–	–	–	–	–	(180)	(43)	(223)
Deferred tax credit recognised directly in equity	–	–	–	–	1,069	–	–	1,069
Revaluation in the year on AFS investments	–	–	–	–	3,457	–	–	3,457
Equity dividends paid	–	–	–	–	–	(772)	–	(772)
Shares issued in respect of option and share schemes	17	156	–	146	–	–	–	319
Shares issued to non controlling interests	–	–	–	–	20	–	217	237
Repurchase/cancellation of own shares	(283)	–	283	135	–	(3,740)	–	(3,605)
Changes associated with the assets to be demerged:								
Valuation change on cash flow hedges	–	–	–	–	1,281	–	68	1,349
Foreign currency translation	–	–	–	–	(1,305)	–	(69)	(1,374)
At 31 December 2009	**5,590**	**20,112**	**1,511**	**(9,070)**	**5,744**	**110,715**	**8,348**	**142,950**

Company Statement of Changes in Equity

For the year ended 31 December 2009

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Own shares £'000	Other reserve £'000	Revaluation reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2008	6,058	19,477	971	(1,195)	256	–	25,542	51,109
Retained profit for the year	–	–	–	–	–	–	8,653	8,653
Deferred tax credit recognised directly in equity	–	–	–	–	–	–	(1,278)	(1,278)
Equity dividends paid	–	–	–	–	–	–	(1,628)	(1,628)
Shares issued in respect of options exercised	55	479	–	–	–	–	–	534
Repurchase of own shares	(257)	–	257	(8,156)	–	–	(3,049)	(11,205)
Credit in relation to share based payments	–	–	–	–	5	–	–	5
Foreign currency translation	–	–	–	–	–	5,596	–	5,596
At 31 December 2008	5,856	19,956	1,228	(9,351)	261	5,596	28,240	51,786
Retained loss for the year	–	–	–	–	–	–	(7,013)	(7,013)
Deferred tax credit recognised directly in equity	–	–	–	–	1,069	–	–	1,069
Equity dividends paid	–	–	–	–	–	–	(772)	(772)
Shares issued in respect of options exercised	17	156	–	146	–	–	–	319
Repurchase of own shares	(283)		283	135		–	(3,740)	(3,605)
Credit in relation to share based payments	–	–	–	–	113	–	–	113
At 31 December 2009	**5,590**	**20,112**	**1,511**	**(9,070)**	**1,443**	**5,596**	**16,715**	**41,897**

Consolidated Cash Flow Statement

For the year ended 31 December 2009

	Notes	2009 £'000	2008 £'000
Cash flows from operating activities			
Operating profit/(loss)		10,636	(1,616)
Adjustments for:			
Depreciation charges	14	1,057	888
Share-based payment expense		297	116
Loss on sale of fixed assets		–	7
Transfer to income on sale of AFS investments, less related tax		–	28
Loss/(profit) on sale of AFS investments		930	(113)
Increase/(decrease) in provision for National Insurance on options		710	(537)
Operating cash flows before movements in working capital		13,630	(1,227)
(Increase)/decrease in trade and other receivables		(14,914)	25,417
Increase/(decrease) in trade and other payables		6,753	(13,138)
Increase/(decrease) in bear positions		2,386	(1,531)
Decrease in bull positions		19,623	11,994
Decrease in tradeable loan instruments		–	19,884
Cash generated by operations		27,478	41,399
Interest paid		(659)	(1,637)
Corporation tax paid		(103)	(315)
Net cash generated by operating activities		26,716	39,447
Cash flows from investing activities			
Purchase of fixed assets		(236)	(274)
Purchase of AFS investments		(11,984)	(557)
Sale of AFS investments		566	1,626
Proceeds on disposal fixed assets		–	33
Interest received		554	1,985
Net cash (utilised)/generated by investing activities		(11,100)	2,813
Cash flows from financing activities			
Shares purchased in subsidiary from Non Controlling Interests		–	(343)
Shares issued in subsidiary to Non Controlling Interests		237	–
Shares issued in respect of exercise of options/share scheme		319	534
Repurchase of shares:			
into treasury		(3,605)	(8,156)
for cancellation		–	(3,049)
(Decrease)/increase in borrowings		(329)	4,531
Dividends paid to Non Controlling Interests		–	(1,881)
Dividends paid to Equity shareholders		(772)	(1,628)
Net cash utilised by financing activities		(4,150)	(9,992)
Net increase in cash and cash equivalents		11,466	32,268
Effects of exchange rate changes		(93)	–
Cash and cash equivalents at the beginning of the year	18	48,655	16,387
Cash and cash equivalents at the end of the year	18	60,028	48,655

Notes to the Financial Statements

For the financial year ended 31 December 2009

1. Accounting Policies – Group

Accounting convention
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Adoption of new and revised standards
The accounting policies adopted are consistent with the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2009.

IFRS 2	Share-based Payment: Vesting Conditions and Cancellations effective 1 January 2009
IFRS 2	Share-based Payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010 (early adopted)
IFRS 3	business Combination (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009 (early adopted) including consequential amendments to IFRS 7, IAS 21, IAS 28r, IAS 31 and IAS 39
IFRS 7	Financial Instruments: Disclosures effective 1 January 2009
IFRS 8	Operating Segments effective 1 January 2009
IAS 1	Presentation of Financial Statements effective 1 January 2009
IAS 23	Borrowing Costs (Revised) effective 1 January 2009
IAS 32	Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation effective 1 January 2009
IAS 39	Financial Instruments: Recognition and Measurement – Eligible Hedged Items effective 1 July 2009 (early adopted)
IFRIC 9	Remeasurement of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement effective for periods ending on or after 30 June 2009
IFRIC 13	Customer Loyalty Programmes effective 1 July 2008
IFRIC 16	Hedges of a Net Investment in a foreign Operation effective 1 October 2008
IFRIC 18	Transfers of Assets from Customers effective 1 July 2009 (early adopted)

Improvements to IFRSs (April 2009)

Adoption of the above Standards and Interpretations did not have any impact on the financial performance or position of the group in the prior periods except for the following:

IFRIC 17 Distribution of Non-cash assets to owners including consequential amendments to IFRS 5, Non-current assets held for sale and discontinued operations effective 1 July 2009 (early adopted)

The group had adopted IFRIC 17 in 2008 and hence in the current year early adopted the consequential amendments in IFRS 5

A liability is recognised when it is no longer at the discretion of the entity, and measured at the fair value of the assets to be distributed. As shareholder approval was obtained only after the year end (on 8 March 2010) for the demerging of the group's interest in Puma Brandenburg and the establishment of new holding companies, the transaction has been disclosed as a non-adjusting post balance sheet event within note 27(b).

IFRS 5 is also consequentially amended to apply to non-current assets held for distribution to owners. Assets will be classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. This has resulted in the assets and liabilities of Puma Brandenburg being presented as 'Assets to be demerged' and 'Liabilities associated with the assets to be demerged' in the Consolidated Statement of Financial Position.

At the date of the authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 9	Financial Instruments: Classification & Measurement is effective for periods on or after 1 January 2013
IAS 24 (R)	Related Party Disclosures is effective on or after 1 January 2011
IAS 27 (R)	Consolidated and Separate Financial Statements is effective for annual periods on or after 1 July 2009
IAS 32 (A)	Classification of Rights Issues is effective for annual periods on or after 1 February 2010
IFRIC 14(A)	Prepayments of Minimum Funding Requirement is effective for periods on or after 1 January 2011
IFRIC 19	Extinguishing Financial Liabilities and Equity Instruments is effective for periods on or after 1 July 2010

The Directors do not anticipate that the adoption of the above standards and interpretations will have a material impact on the Group's financial statements in the period of initial application.

Notes to the Financial Statements continued

For the financial year ended 31 December 2009

1. Accounting Policies – Group continued

General information

These financial statements are presented in pounds sterling, this being the currency of the primary economic environment in which the Group operates.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The financial statements are rounded to the nearest thousand (expressed as thousands and with no decimal place – £'000), except where otherwise indicated. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries) made up to 31 December each year. Control is achieved where the company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Non controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non controlling interests consist of the amount of those interests at the date of the original business combination and the non controlling interest's share of changes in equity since the date of the combination.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Judgements and key sources of estimation uncertainty

The preparation of the 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.

Judgements

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:

Taxation

The Company and its subsidiaries are subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the appropriate authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provision required for both current and deferred tax on the basis of professional advice and the nature of any current discussions with the tax authority concerned.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Deferred tax assets

Management judgement is required to determine the amount of deferred tax assets that can be recognised based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. The carrying value of deferred tax assets is set out in note 7.

Fair value of unquoted equity instruments

Where there is no available representative external valuation, judgement is required to determine the most appropriate valuation method for unquoted equity instruments. Further details are set out later in this note 1 and in notes 15, 16 and 24(f).

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 at 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 are also required to use judgement in determining the most appropriate inputs to the valuation model. Details of the assumptions and model used are set out in note 6(d).

Foreign currency translation

The Group's consolidated financial statements are presented in sterling, which is the Group's functional currency. That is the currency of the primary economic environment in which the Group operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the balance sheet date. All differences are taken to the income statement with the exception of differences on foreign currency borrowings accounted for as a hedge of a net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

1. Accounting Policies – Group continued

Foreign currency translation continued
The assets and liabilities of foreign operations are translated into sterling at the rate of exchange prevailing at the balance sheet date and their income statements are translated at average exchange rates for the period. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Foreign exchange
Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. Translation differences are dealt with in the income statement.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Revenue
Revenue includes the net profit/loss on principal trading, commission income, corporate advisory fees, fund management fees and other ancillary fees.

Dividends and interest arising on bull and bear positions in securities form part of dealing profits and, because they are also reflected by movements in market prices, are not identified separately.

Fees from advisory engagements for which the work is substantially complete or which are at a stage where work for which separate payment is due is substantially complete, and which will become due but are not yet invoiced are recorded on a right to consideration basis. Where such fees are contingent on the outcome of a transaction they are only accounted for after the transaction has exchanged.

Revenue, including revenue from Stock Exchange transactions, is accounted for at trade/contract date rather than settlement date.

Financial instruments
Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

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

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Financial assets and liabilities at FVTPL
Financial assets and liabilities are classified as at FVTPL where the financial asset or liability is either held for trading or it is designated as at FVTPL. A financial asset or liability is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments which the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative which is not designated and is effective as a hedging instrument.

Financial instruments which are classified as held for trading through profit or loss comprise bull and bear positions in securities and derivative instruments. Bull and bear positions are valued at closing out prices at the close of business on the balance sheet date, namely bull positions at the bid price and bear positions at the offer price.

Notes to the Financial Statements continued

For the financial year ended 31 December 2009

1. Accounting Policies – Group continued

Financial assets and liabilities at FVTPL continued

Derivatives are initially recognised at the contract value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

A financial asset or liability, other than a financial asset or liability held for trading, may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a Group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets and liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset or financial liability.

The Group's financial assets designated as at FVTPL upon initial recognition include positions in quoted and unquoted securities. The valuation technique and assumptions used to fair value these instruments is disclosed within Note 16.

AFS investments

Available-for-sale investments are revalued to their fair value with such revaluation being taken directly to equity. Where such investments are in unlisted securities, they are valued by the directors at the most recent available representative arm's length price. Investments in listed securities held as available-for-sale investments are valued by reference to the market price of the shares. They are re-measured to their fair value at each balance sheet date.

Loans and receivables

Trade receivables and other receivables which have fixed or determinable payments which are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Impairment of financial assets

At each balance sheet date, the Group reviews whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

1. Accounting Policies – Group continued

Financial assets carried at amortised cost continued

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

Cash and cash equivalents

Cash comprises cash in hand and on-demand deposits which may be accessed without penalty. For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Trade and other payables

Trade and other payables are measured on initial recognition at fair value, and are subsequently measured at amortised cost.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. An equity instrument is any contract which evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Repurchase of share capital (own shares)

Where share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Such shares may either be held as Own Shares (treasury shares) or cancelled. Where own shares are subsequently re-sold from treasury, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

Intangible assets

On the acquisition of a business or an interest in a business which is to be consolidated, fair values are attributed to the share of identifiable net assets acquired. Where the cost of acquisition exceeds the fair value attributable to such assets, the difference is treated as purchased goodwill. Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. The Group evaluates goodwill annually and whenever circumstance indicates the possibility of impairment. Such evaluation is based on comparing the fair value of the cash-generating unit to its carrying value. Where the carrying value exceeds its fair value, an impairment loss is recorded for the difference.

Notes to the Financial Statements continued

For the financial year ended 31 December 2009

1. Accounting Policies – Group continued

Negative Goodwill

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the income statement.

Impairment of goodwill and other non-financial assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets (e.g., Goodwill), the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. The recoverable amount is the higher of fair value less any cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount.

Impairment losses are recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash generating unit in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase. However, impairment losses relating to goodwill may not be reversed.

Property, plant & equipment

Property, plant & equipment are stated at cost less accumulated depreciation and impairment. Depreciation is calculated so as to write off the cost of property, plant & equipment by equal annual instalments over their estimated useful lives at the following rates:-

Leasehold premises	–	over the unexpired term of the lease
Fixtures and equipment	–	25-33% per annum
Asset rental	–	4% per annum
Motor vehicles	–	16.7% per annum

Depreciation of an asset commences when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Property and operating leases

Rentals paid under operating leases are charged to income statement evenly over the primary period of the contract.

Pension costs

The charge against profits is the amount of contributions payable in respect of defined contribution pension arrangements for directors and employees in the year.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interest in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the forseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

1. Accounting Policies – Group continued

Taxation continued
Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Share-based payments
The Group has applied the requirements of IFRS 2 Share-based Payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that had not vested by 1 January 2005.

The Group engages in equity settled share-based payment transactions in respect of services received from certain employees and directors. The fair value of the services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost of the employee services received in respect of the share options granted is recognised in the income statement over the period that the services are received, which is the vesting period, together with a corresponding increase in equity. The fair value of the options granted is determined using the Black-Scholes Option Pricing Model, which takes into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the Group's share price over the life of the option and other relevant factors. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense for the year represents the movement in cumulative expense recognised as the beginning and end of the year.

Employer's National Insurance ("NI") is accrued at the current rate of NI on differences between the market value at the balance sheet date of the shares that would be acquired when the options are exercised and the exercise price of those options.

The dilutive effect of outstanding share options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 10).

Loans and borrowings
After initial recognition, interest bearing loans and borrowings and subsequently measured at amortised cost using the effective interest rate method.

Provisions
Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date.

Accounting Policies – Company

Accounting convention
The financial statements have been prepared on the historical cost basis. The financial statements of the company have been prepared in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). All applicable policies for the company are the same as those for the Group (see above) except for the following:

Investment in subsidiaries
Investments in subsidiaries are held at cost less provision for any impairment in value.

Notes to the Financial Statements continued

For the financial year ended 31 December 2009

2. Segment Information

Additional analysis of revenue and results is presented in the Chairman's Statement on page 5.

For management purposes, the group is organised into business units based on their services, and has two reportable operating segments as follows:

- Equity Capital Markets provides research in selected sectors, broking for institutional and professional clients, market-making in AIM and small cap stocks and corporate finance for mid and small cap companies.
- Asset Management and Principal Finance provides advisory and discretionary fund management services, manages specialist funds invested in alternative asset classes, and conducts principal finance activities using our own balance sheet.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segmental performance is evaluated based on operating profit or loss.

Transfer prices between operating segments are on an arm's-length basis in a manner similar to transactions with third parties.

Year ended 31 December 2009	**Equity Capital Markets £'000**	**Asset Management/ Principal Finance £'000**	**Operations being demerged £'000**	**Consolidated £'000**
Revenue	**27,616**	**11,372**	**–**	**38,988**
Results:				
Depreciation	**171**	**886**	**–**	**1,057**
Interest expense	**24**	**635**	**–**	**659**
Profit before tax	**8,825**	**1,706**	**63,146**	**73,677**
Profit after tax from PBL	**–**	**–**	**3,497**	**3,497**
Assets	**44,939**	**86,743**	**578,815**	**710,497**
Liabilities	**25,314**	**30,036**	**512,197**	**567,547**

No material amounts of revenue or profit before tax were generated outside of Europe.

Year ended 31 December 2008	Equity Capital Markets £'000	Asset Management/ Principal Finance £'000	Consolidated £'000
Revenue	16,521	3,131	19,652
Results:			
Depreciation	172	716	888
Interest expense	409	1,228	1,637
Profit/(loss) before tax	2,366	(3,634)	(1,268)
Assets	19,344	93,283	112,627
Liabilities	6,097	39,666	45,763

No material amounts of revenue or profit before tax were generated outside of Europe.

3. Operating Profit/(Loss)

	2009 £'000	2008 £'000
Operating profit/(loss) has been arrived at after charging:		
Depreciation	**1,057**	888
Property lease rentals	**661**	551
Loss on disposal of fixed assets	**–**	7

The analysis of auditors' remuneration is as follows:

	2009 £'000	2008 £'000
Fees payable to the company's auditors for:		
– the audit of the company's annual accounts	**24**	24
– other services to the Group: audit of the company's subsidiaries	**48**	48
Total audit fees	**72**	72
Fees payable to the company's auditors and their associates for other services to the group:		
– Tax services	**37**	25
– Other services	**17**	25
Total non-audit fees	**54**	50
Exchange differences, excluding those arising on financial instruments		
– Exchange differences	**63**	605
Total exchange differences	**63**	605

4. Interest Income

	2009 £'000	2008 £'000
Bank interest	**296**	1,295
Other interest receivable	**258**	690
	554	1,985

5. Finance Costs

	2009 £'000	2008 £'000
Interest on overdraft and other finance costs	**–**	190
Interest on debts and borrowings	**626**	1,138
Other interest payable	**33**	309
	659	1,637

Notes to the Financial Statements continued

For the financial year ended 31 December 2009

6. Employees and Directors

a) Employee numbers

The average number of employees, including Executive Directors, employed by the Group during the financial year was:

	2009 No.	2008 No.
Investment banking activities:		
Securities	64	61
Corporate Advisory	11	11
Asset Management	35	38
	110	110

b) The costs incurred in respect of these employees comprise

	2009 £'000	2008 £'000
Salaries and commission	14,085	7,860
Social security costs	2,660	518
Pension costs	188	179
	16,933	8,557

c) Employee Benefit Trust

Total Assets includes Cash at Bank and Available for Sale Investments held by an Employee Benefit Trust whose beneficiaries are the employees of the Group and their immediate families. As at 31 December 2009, the Trust held cash of £626,000 (2008: £534,000) and available-for-sale investments of £1,156,000 (2008: £755,000).

d) Employee Share Option Plan

The Group maintains a Share Option Plan under which present and future employees of the Group may be granted options to subscribe for up to 10% of the Group's issued share capital from time to time (on a fully-diluted basis). The plan is used to attract and retain high-calibre employees to continue to develop and expand the business of the Group. Such options are granted by the Board at a price no less than the average quoted market price of the company's share on the date of grant. The vesting period is generally 3 years. If the options remain unexercised after a period of ten years from the date of grant the options expire. Options are forfeited if the employee chooses to leave the Group before the options vest. If an employee holding vested options leaves the group, the options held must be exercised within 6 months of the date of leaving. As at 31 December 2009, there were 22,724,348 (2008: 19,117,171) options in issue under the plan representing 8.30% (2008: 6.13%) of the Group's issued share capital on a fully diluted basis. Details of the share options outstanding during the year are as follows:

	2009		2008	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at beginning of year	19,117,171	19.2p	21,398,781	18.9p
Granted during the year	4,450,000	25.0p	1,800,000	33.3p
Forfeited during the year	–	–	(1,342,823)	31.7p
Exercised during the year	(842,823)	20.5p	(2,738,787)	19.5p
Outstanding at the end of the year	22,724,348	19.3p	19,117,171	19.2p
Exercisable at the end of the period	16,974,348		17,317,171	

The options outstanding at 31 December 2009 had a weighted average remaining contractual life of 4 years 4 months (2008: 5 years 4 months).

6. Employees and Directors continued

d) Employee Share Option Plan continued

Using a Black-Scholes option pricing model, the aggregate of the estimated fair value of the options granted in 2009 was £375,000 (2008: £115,000). The inputs into the Black-Scholes model were as follows:

	2009	2008
Weighted average exercise price	25.0p	33.33p
Weighted average volatility	0.6400	0.3988
Expected life	10 years	10 years
Weighted average risk-free rate	0.74%	3.56%
Expected dividend yields	1.00%	2.00%

Expected volatility was determined by calculating the historical volatility of the group's share price over the previous 12 months.

In 2009, the Group recognised total expenses of £297,000 (2008: £116,000) related to equity-settled share-based payment transactions.

e) Emoluments of the Directors

2009	Gross salary £'000	Bonus, commission and other income £'000	Fees £'000	Pension Contributions £'000	Benefits £'000	Total £'000
H P Shore	200	975	–	–	35	1,210
G B Shore	150	280	–	10	2	442
M L van Messel	130	175	–	13	2	320
J S Paisner	175	350	–	18	1	544
Dr Z Marom	5	–	35	–	–	40
J B Douglas	5	–	38	–	–	43
	665	1,780	73	41	40	2,599

2008	Gross salary £'000	Bonus, commission and other income £'000	Fees £'000	Pension Contributions £'000	Benefits £'000	Total £'000
H P Shore	200	–	–	–	33	233
G B Shore	150	–	–	10	2	162
M L van Messel	130	–	–	13	2	145
J S Paisner	130	–	–	13	1	144
Dr Z Marom	5	–	30	–	–	35
J B Douglas	5	–	33	–	–	38
	620	–	63	36	38	757

Notes to the Financial Statements continued

For the financial year ended 31 December 2009

6. Employees and Directors continued

f) The following options over unissued ordinary shares of 2p have been granted to the directors:

	Number of options over unissued ordinary shares	Date of grant	Exercise price per ordinary share	Exercise date
H P Shore	6,068,331	15 January 2002	20.5p	Before 14 January 2012
G B Shore	1,685,647	15 January 2002	20.5p	Before 14 January 2012
J S Paisner	1,500,000	21 November 2002	11.0p	Before 20 November 2012
J S Paisner	1,000,000	15 December 2008	20.0p	Before 14 December 2018

On 11 June 2009, M L van Messel exercised options over 842,823 unissued ordinary shares at an exercise price of 20.5p each. The market price on the date of exercise was 24.25p.

On 15 December 2008, J S Paisner was granted options over 1,000,000 unissued ordinary shares at an exercise price of 20.0p each. The market price on the date of grant was 18.75p.

The closing price of the shares at 31 December 2009 was 38.0p (2008: 13.75p) and the range during the year was 13.50p to 41.00p.

On 9 March 2010, H P Shore and G B Shore each exercised options over 146,341 unissued ordinary shares at an exercise price of 20.5p each. On the same day, J S Paisner exercised options over 272,727 unissued ordinary shares at an exercise price of 11.0p each. The market price on the date of exercise was 37.0p.

g) Related party transactions

The directors and all other staff are entitled to deal in securities through a subsidiary company in accordance with in-house dealing rules, which include the provision that staff are entitled to reduced commission rates.

The directors are of the opinion that such transactions are not material to either the company or the individual concerned.

Transactions between Group companies comprise management charges for central overheads which are recharged throughout the Group as follows:

	2009 £'000	2008 £'000
Recharged to:		
Shore Capital Markets Limited	1,833	1,170
Shore Capital Limited	600	600
Shore Capital Treasury	240	–
Shore Capital Trading Limited	100	1,200
	2,773	2,970

At 31 December 2009 subsidiary undertakings owed a net amount of £2,670,000 (2008: £4,562,000 owed by subsidiaries).

h) Compensation of key management personnel

Excluding directors of the holding company (see Note 6.e) the remuneration of key management during the year was as follows:

	2009 £'000	2008 £'000
Salaries and other short-term benefits	3,052	2,024
	3,052	2,024

7. Tax on Profit/(Loss) on Ordinary Activities

	2009 £'000	2008 £'000
The tax charge/(credit) comprises:		
Provision for United Kingdom corporation tax charge/(credit) at 28% (2008: 28.5%)	**2,149**	(1,700)
Prior year overprovision	**(243)**	(5)
Movement in deferred tax	**202**	70
	2,108	(1,635)

The difference between the UK corporation tax charge and the amount calculated by applying the standard rate of UK corporation tax to the profit/(loss) before tax is as follows:

	2009 £'000	2008 £'000
Profit/(loss) on ordinary activities before tax	**73,677**	(1,268)
Tax thereon at 28.0% (2008: 28.5%)	**20,630**	(361)
Effects of:		
Expenses not deductible for tax purposes	**74**	135
Income not chargeable to tax	**(18,281)**	(107)
Share based payments	**74**	(117)
Capital allowances in excess of depreciation	**(287)**	(174)
Temporary differences	**227**	(1)
Capital losses utilised	**(14)**	–
Credit arising on consolidation	**–**	(843)
Prior year adjustment	**(243)**	(5)
Other	**22**	8
Amounts taxed at different rates	**(94)**	(170)
	2,108	(1,635)

The standard rate of UK corporation tax changed from 30% to 28% with effect from 1 April 2008.

Deferred tax asset – Group

	Share-based payments £'000	Temporary differences £'000	Total £'000
At 1 January 2009	51	783	834
Credit/(charge) to income	84	(286)	(202)
Credit/(charge) to equity	1,069	(103)	966
At 31 December 2009	**1,204**	**394**	**1,598**

Deferred tax asset – Company

	Share-based payments £'000	Temporary differences £'000	Total £'000
At 1 January 2009	51	–	51
Credit to income	643	–	643
Credit to equity	1,069	–	1,069
At 31 December 2009	**1,763**	**–**	**1,763**

Notes to the Financial Statements continued

For the financial year ended 31 December 2009

8. Profit of Parent Company

As permitted by Section 408 of the Companies Act 2006 the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's loss after tax for the financial year amounted to £7,013,000 (2008: profit of £8,653,000)

9. Rates of Dividends Paid and Proposed

	2009 £'000	2008 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2008 of 0.05p per share (2007: 0.325p)	128	962
Interim dividend for the year ended 31 December 2009 of 0.25p per share (2008: 0.25p)	644	666
	772	1,628
Proposed second interim dividend for the year ended 31 December 2009 of 0.625p per share (2008: final dividend of 0.05p)	1,569	128

10. Earnings per Share

The earnings and number of shares in issue or to be issued used in calculating the earnings per share and diluted earnings per share in accordance with IAS 33 were as follows:

	2009		2008	
	Basic	Diluted	Basic	Diluted
Earnings (£)	69,750,000	69,750,000	40,000	40,000
Number of shares	256,577,244	263,342,178	280,053,622	288,362,356
Earnings per share	27.18	26.49	0.01p	0.01p

Calculation of number of shares

	2009		2008	
	Basic	Diluted	Basic	Diluted
Weighted average number of shares	256,577,244	256,577,244	280,053,622	280,053,622
Dilutive effect of share option schemes	–	6,764,934	–	8,308,734
	256,577,244	263,342,178	280,053,622	288,362,356

As at 31 December 2009 there were 250,991,002 ordinary shares in issue (2008: 263,517,512) net of shares held in treasury. Movements in the number of shares in issue during the year are set out in note 23.

11. Lease Commitments

	2009 £'000	2008 £'000
Minimum lease payments under operating leases recognised as an expense during the year	661	551

At 31 December 2009 the Group had outstanding commitments for future minimum lease payments under operating leases, which fall due as follows:

	2009 £'000	2008 £'000
Operating leases		
Amounts payable in under one year	661	588
Amounts payable between one and five years	1,538	1,232
Amounts payable between five and ten years	–	50
	2,199	1,870

12. Categories of Financial Assets and Liabilities

At 31 December 2009	Designated at fair value £'000	Held for trading £'000	Loans and receivables £'000	Available-for-sale securities £'000	Financial assets and liabilities at amortised cost £'000	Total £'000
Financial assets						
Cash and cash equivalents	–	–	–	–	60,028	60,028
Trading assets (bull positions)	7,165	3,831	–	–	–	10,996
Trade receivables in the course of collection	–	–	–	–	24,011	24,011
Loans	–	–	725	–	–	725
Financial investments	–	–	–	11,262	–	11,262
Other assets	–	–	–	–	8,207	8,207
Accrued income	–	–	–	–	1,787	1,787
	7,165	3,831	725	11,262	94,033	117,016
Financial liabilities						
Bank overdrafts and borrowings	–	–	–	–	25,765	25,765
Trading positions (bear positions)	–	3,243	–	–	–	3,243
Trade payables in the course of collection	–	–	–	–	12,333	12,333
Derivatives	–	749	–	–	–	749
Other liabilities	–	–	–	–	8,466	8,466
Accruals	–	–	–	–	687	687
	–	3,992	–	–	47,251	51,243

At 31 December 2008	Designated at fair value £'000	Held for trading £'000	Loans and receivables £'000	Available-for-sale securities £'000	Financial assets and liabilities at amortised cost £'000	Total £'000
Financial assets						
Cash and cash equivalents	–	–	–	–	48,655	48,655
Trading assets (bull positions)	26,413	4,206	–	–	–	30,619
Trade receivables in the course of collection–	–	–	–	9,108	9,108	
Loans	–	–	715	–	–	715
Financial investments	–	–	–	760	413	1,173
Other assets	–	–	–	–	3,593	3,593
Accrued income	–	–	–	–	2,959	2,959
	26,413	4,206	715	760	64,728	96,822
Financial liabilities						
Bank overdrafts and borrowings	–	–	–	–	27,461	27,461
Trading positions (bear positions)	–	857	–	–	–	857
Trade payables in the course of collection	–	–	–	–	6,139	6,139
Derivatives	–	2,366	–	–	–	2,366
Other liabilities	–	–	–	–	4,379	4,379
Accruals	–	–	–	–	2,967	2,967
	–	3,223	–	–	40,946	44,169

Notes to the Financial Statements continued

For the financial year ended 31 December 2009

13. Goodwill

Cost	Goodwill arising on the acquisition of non controlling interest in subsidiary £'000
At 1 January and 31 December 2009	381
Amortisation	
At 1 January and 31 December 2009	–
Net Book Value	
At 31 December 2009	**381**
At 31 December 2008	381

Prior to the transition to IFRS, goodwill arising on consolidation was amortised over the lower of 20 years and the estimated useful life of the assets. Under IFRS, such goodwill is subject to an annual impairment review.

14. Property, Plant & Equipment – Group

Cost	Leasehold premises £'000	Fixtures and equipment £'000	Asset Rental £'000	Motor vehicles £'000	Total £'000
At 1 January 2009	1,003	1,412	14,106	189	16,710
Additions	36	160	40	–	236
Disposals	–	(165)	–	–	(165)
Retranslation movement	–	(7)	(1,547)	(3)	(1,557)
At 31 December 2009	**1,039**	**1,400**	**12,599**	**186**	**15,224**
Depreciation					
At 1 January 2009	370	861	387	89	1,707
Charge for the year	205	270	552	30	1,057
Retranslation movement	–	(3)	(59)	–	(62)
Disposals	–	(165)	–	–	(165)
At 31 December 2009	**575**	**963**	**880**	**119**	**2,537**
Net Book Value					
At 31 December 2009	**464**	**437**	**11,719**	**67**	**12,687**
At 1 January 2009	633	551	13,719	100	15,003

14. Property, Plant & Equipment – Group continued

Property, Plant & Equipment – Company

Cost	Fixtures and equipment £'000	Motor vehicles £'000	Total £'000
At 1 January 2009	199	153	352
Additions	23	–	23
Disposals	(44)	–	(44)
At 31 December 2009	**178**	**153**	**331**
Depreciation			
At 1 January 2009	143	76	219
Charge for the year	28	25	53
Disposal	(44)	–	(44)
At 31 December 2009	**127**	**101**	**228**
Net Book Value			
At 31 December 2009	**51**	**52**	**103**
At 1 January 2009	56	77	133

15. Investments

Available-for-Sale Investments held as Non Current Assets – Group

Available-for-Sale Investments of £11,262,000 (2008: £760,000) includes £1,156,000 (2008: £755,000) held in the Shore Capital Group Employee Benefit Trust.

Cost	Listed investments £'000	Unlisted investments £'000	Total £'000
At 1 January 2009	200	505	705
Additions	3,781	8,203	11,984
Disposals	–	(566)	(566)
At 31 December 2009	**3,981**	**8,142**	**12,123**
Revaluation			
At 1 January 2009	–	55	55
Revaluation in the year	(486)	(430)	(916)
Disposals	–	–	–
At 31 December 2009	**(486)**	**(375)**	**(861)**
Valuation			
At 31 December 2009	**3,495**	**7,767**	**11,262**
At 31 December 2008	200	560	760

Investment in Subsidiaries – Company

Cost and valuation	Shares in subsidiary undertakings £'000
At 1 January 2009	49,106
Additions	585
Impairments	(1,491)
Retranslation movement	(8,354)
At 31 December 2009	**39,846**

Notes to the Financial Statements continued

For the financial year ended 31 December 2009

15. Investments continued

Additional information on principal subsidiaries.

Subsidiary		Country of registration and operation	Activity	Portion of ordinary shares and voting rights held
Trading Companies				
Shore Capital Markets Limited	1	England and Wales	Intermediate Holding Co.	79.1%
Shore Capital Stockbrokers Limited	2	England and Wales	Broker/dealer	79.1%
Shore Capital and Corporate Limited	2	England and Wales	Corporate advisers	79.1%
Shore Capital Finance Limited		England and Wales	Credit provider	100%
Shore Capital Limited		England and Wales	Fund Management company	100%
Shore Capital Investments Limited		England and Wales	Holds investments	100%
Shore Capital Treasury Limited		England and Wales	Group treasury company	100%
Shore Capital International Limited		England and Wales	Advisory services	100%
Shore Capital Management Limited		England and Wales	Member of an LLP	100%
Shore Capital (Japan) Limited		England and Wales	Credit provider	100%
Pebble Investments Limited		Guernsey	Holds investments	100%
Puma Brandenburg Limited	3	Guernsey	Holds investment properties	94.97%
Puma Property Advisers Limited		Guernsey	Property advisory services	100%
Shore Capital Trading Limited	4	England and Wales	Dormant	100%
JellyWorks Limited		England and Wales	Dormant	100%
Limited Liability Partnerships				
The Lily Partnership LLP		England and Wales	Asset rental business	80%
Nominee Company				
Puma Nominees Limited		England and Wales	Nominee company	100%

1 Shore Capital Markets Limited is the intermediate holding company of, and holds 100% of the ordinary shares and voting rights in, each of Shore Capital Stockbrokers Limited and Shore Capital and Corporate Limited. The Company currently has a direct holding of 79.1% in Shore Capital Markets Limited. The balance of the shares in Shore Capital Markets Limited were bought by senior executives of that company and its subsidiaries.

2 The Group's interest in each of Shore Capital Stockbrokers Limited and Shore Capital and Corporate Limited is held indirectly through Shore Capital Markets Limited (see note 1 above).

3 Puma Brandenburg Limited holds its investment properties through a series of 100% owned subsidiaries. These have not been listed here.

4 Shore Capital Trading Limited ceased trading with effect from 31 December 2008 and is now a dormant company.

16. Bull Positions and Other Holdings

	Group 2009 £'000	Company 2009 £'000	Group 2008 £'000	Company 2008 £'000
Held For Trading				
Listed holdings at market value:				
Equities	3,831	–	4,206	–
Designated at Fair Value				
Listed holdings at market value:				
Equities	–	–	432	–
Debt instruments	1,556	–	3,172	–
Invested in own funds and products	–	–	5,150	–
Unlisted holdings:				
Equities	–	–	1,375	–
Debt	–	–	1,617	–
Invested in own funds and products	5,609	–	13,955	–
Other (including hedge funds)	–	–	712	–
	10,996	–	30,619	–

The fair value of financial assets designated at fair value has been determined as follows:

1. for listed holdings the fair value is determined, in whole, by reference to published price quotations, having regard to the size and liquidity of the holding; and

2. for unlisted holdings fair value is estimated wherever possible using observable market prices or rates. Where none exist, the fair value is determined by the directors at the most recent available representative arm's length price or valuation. The fair value of the largest holding has been estimated based on the net asset value of the investee company which itself is based on external professional property valuations.

17. Trade and Other Receivables

	Group 2009 £'000	Company 2009 £'000	Group 2008 £'000	Company 2008 £'000
Trade receivables	24,011	–	9,108	–
Other receivables	8,207	41	3,593	2
Loans	725	–	715	–
UK corporation tax	–	–	–	–
Prepayments and accrued income	1,787	10	2,959	57
	34,730	51	16,375	59

The directors consider that the carrying value of trade and other receivables approximates to their fair value. Trade receivables are shown net of provision for doubtful debts amounting to £304,000 (2008: £375,000).

The table below shows the ageing of trade debtors which are past their due date for payment but not impaired.

	2009 £'000	2008 £'000
Between 30 and 60 days	94	126
Between 60 and 90 days	85	125
Greater than 90 days	635	1,095
	814	1,346
Amounts not yet due	33,916	15,029
Trade receivables	34,730	16,375

Notes to the Financial Statements continued

For the financial year ended 31 December 2009

18. Cash and Cash Equivalents

Group

Cash at bank and in hand of £60,028,000 (2008: £48,655,000) includes £626,000 (2008: £534,000) held in the Shore Capital Group Employee Benefit Trust.

Analysis of Changes In Net Funds – Group

	As at 1 January 2009 £'000	Cashflows £'000	As at 31 December 2009 £'000
Cash at bank and in hand	48,655	11,373	60,028
Overdraft	–	–	–
	48,655	11,373	60,028

Analysis of Changes in Net Funds – Company

	As at 1 January 2009 £'000	Cashflows £'000	As at 31 December 2009 £'000
Cash at bank and in hand	245	14,782	15,027
Overdraft	–	–	–
	245	14,782	15,027

19. Trade and Other Payables

	Group 2009 £'000	Company 2009 £'000	Group 2008 £'000	Company 2008 £'000
Trade payables	12,333	28	6,139	–
Other payables	8,466	1,707	3,940	757
Other taxation and social security	–	–	439	263
Accruals and deferred income	687	102	2,967	103
	21,486	1,837	13,485	1,123

The directors consider that the carrying value of trade and other payables approximates their fair value.

20. Borrowings

	2009 £'000	2008 £'000
Secured borrowings at amortised cost		
Bank overdrafts	–	–
Bank loans	25,765	27,461
Total Borrowings	25,765	27,461
Amount due to be repaid within 12 months	329	370
Amount due to be repaid after 12 months	25,436	27,091

	Multi currency loan facility £'000	Amortising USD loan facility £'000	GBP facilities £'000	Total £'000
31 December 2009				
Bank overdraft	–	–	–	–
Bank loans	15,000	10,765	–	25,765
	15,000	10,765	–	25,765

	Multi currency loan facility £'000	Amortising USD loan facility £'000	GBP multi-option facility £'000	Total £'000
31 December 2008				
Bank overdraft	–	–	–	–
Bank loans	15,000	12,461	–	27,461
	15,000	12,461	–	27,461

In respect of the multi currency loan facility, the Group deposits as security certain of its bull positions and holdings and cash balances. As at 31 December 2009, these had a carrying value of £19,657,000 (2008: £25,272,000). The GBP facilities comprise a multi-option overdraft facility and a revolving credit facility which are secured by a floating charge over the assets of the Group's stockbroking subsidiary.

The weighted average interest rates paid during the year were as follows:

	2009 %	2008 %
Bank overdrafts	2.39	6.09
Bank loans	5.09	4.42

The other principal features of the Group's borrowing's are as follows.

(i) Sterling based facilities of £20,000,000 in total comprising a multi-option overdraft facility of £15,000,000 and a revolving credit facility of £5,000,000. Under this facility, the Group has the option to draw down a fixture for a fixed maturity or an overdraft which is repayable on demand. The average effective interest rate on bank overdrafts was approximately 2.39% per annum (2008: 6.09%) and was determined on a base rate plus a margin. Both facilities were undrawn as at 31 December 2009.

(ii) The Group has principal bank loans:

(a) a multi-currency loan facility of £15,000,000 (2008: £15,000,000). During the year this facility was extended to have a minimum term until 29 June 2012. The loan is secured by a charge over part of the Group's bull positions and holdings and cash. The loan carries an interest rate at 1.5% above LIBOR for the relevant period in the relevant currency. There is no material difference between the amortised value of the loan and fair value.

(b) an amortising loan of $17,385,000 (2008: $17,916,000) for which the Group has liability for 80%. Principal is repayable in quarterly instalments with final repayment due on 31 March 2018. The loan is secured by a charge over certain of the Group's fixed assets. The loan carries an interest rate at 1.0% above 3 month USD LIBOR. As at 31 December 2009 the fair value of the loan was $16,009,000 (2008: $16,048,000).

Undrawn Facilities
The Group's multi option facility of £20,000,000 is structured as a multi option facility of £15,000,000 and a revolving credit facility of £5,000,000. As at the year end, £15,000,000 (2008: £15,000,000) was undrawn on the multi-option facility and £5,000,000 (2008: £5,000,000) was undrawn on the revolving credit advance facility.

Notes to the Financial Statements continued

For the financial year ended 31 December 2009

21. Provision for Liabilities and Charges

Group and company

Provision for National Insurance contributions on share options

	2009 £'000	2008 £'000
At 1 January	19	556
Charge/(credit) for the year	710	(479)
Payments made in the year	–	(58)
At 31 December	729	19

This provision will be utilised when staff exercise their options during the period of 1 January 2010 to 23 March 2019.

22. Capital Commitments

As at 31 December 2009, there were no amounts which were contracted for but not provided in the financial statements (2008: £nil).

23. Called Up Share Capital

	2009 £'000	2008 £'000
Authorised		
625,000,000 ordinary shares of 2p each	12,500	12,500

Allotted, called up and fully paid	2009 Number of shares	2008 Number of shares	2009 £'000	2008 £'000
At 1 January	292,797,235	302,895,186	5,856	6,058
Shares issued in respect of options exercised	842,823	2,738,787	17	55
Shares cancelled from treasury	(297,756)	–	(6)	–
Shares repurchased and cancelled	(13,858,096)	(12,836,738)	(277)	(257)
At 31 December	279,484,206	292,797,235	5,590	5,856

During the year to 31 December 2009, there were 842,823 (2008: 2,738,787) ordinary shares of 2p each which were issued as the result of the exercise by employees of share options granted in prior years under the terms of the Share Option Plan.

During the year to 31 December 2009, the company repurchased 13,858,096 (2008: 39,144,664) ordinary shares of 2p each at an average price of 25.9p. Of the shares purchased, 28,493,204 are held as treasury shares as at 31 December 2009. The shares repurchased represent 4.7% of the company's called-up share capital at the start of 2009. The total cost in the year for these purchases, including related charges, was £3,605,000 (see also Note 27). The shares were repurchased to enhance the value of the remaining shares.

Own shares (held in treasury)

	Own shares Number of shares	Own Shares £'000
At 1 January 2009	29,279,723	9,351
Acquired in the year	263,989	37
Sold in the year	(488,763)	(146)
Cancelled in the year	(561,745)	(172)
At 31 December 2009	**28,493,204**	**9,070**

At the year end, the directors had remaining authority, under the shareholders' resolution of 15 May 2009, to purchase 31,865,202 ordinary shares of the company. This authority expires on the earlier of the next annual general meeting and 14 August 2010.

24. Financial Instruments

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt (see note 20), cash and cash equivalents (see note 18), and equity attributable to equity holders of the parent, comprising issued share capital, reserves and retained earnings (see Consolidated Statement of Changes in Equity).

The Group's financial instruments comprise cash and liquid resources, trade and other receivables and trade and other payables, bull and bear positions in equities, financial assets designated at fair value and derivative instruments.

The profit and loss arising from dealings in financial instruments is included within Revenue. This is analysed by financial instrument as follows:

Net gains or losses arising from dealings in financial instruments

2009	Designated at fair value £'000	Held for trading £'000	Available-for-sale securities £'000	Total £'000
Equities	3,272	16,496	–	19,768
Debt	536	–	–	536
Alternative Assets	–	–	56	56
	3,808	16,496	56	20,360
2008				
Equities	(3,884)	3,674	–	(210)
Debt	1,154	–	–	1,154
Alternative Assets	(4,278)	–	168	(4,110)
	(7,008)	3,674	168	(3,166)

The main risks arising from the Group's financial instruments are market risk, currency risk, interest rate risk, credit risk and liquidity risk. The Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

a) Market Risk

The Group is exposed to market risk in respect of its trading in equities and other holdings. The fair value at the year end of positions arising from these activities is disclosed in the Financial Statements in Note 16 for bull positions and in the consolidated balance sheet for bear positions.

Other holdings mainly comprises seeding of own Funds which have been launched (details of which are set out in the Chairman's statement on pages 4 to 11).

The Group holds commercial paper from time to time and this is primarily subject to credit risk (see note 24.d).

To reduce exposure to market risk, during 2008 the Group has reduced the level of bull positions held in the principal trading activity. The year end positions arising from market-making activities therefore reduced during the prior year and these lower levels have been maintained throughout 2009. Both the permitted size of each trading book and the size of individual positions are predetermined and dealers are set prescribed limits within which they can deal. Day-to-day risk monitoring is carried out by the Head of the Shore Capital Markets division and the Compliance Department.

As at 31 December 2008 the Group ceased its trading activity with its balance sheet that was carried out in Shore Capital Trading Limited and has since concentrated its balance sheet activities on investments.

Based on a 10% movement in the market price of equities, with all other variables remaining unchanged, the effect on profit for the year and equity would be as follows:

	Net Equity £'000	2009 Change in price of UK equities %	Effect on profit and on equity £'000	Net equity £'000	2008 Change in price of UK equities %	Effect on profit and on equity £'000
Listed equities (net)	588	10%	59	3,781	10%	378
Listed holdings in own funds and products	–	10%	–	5,150	10%	515
Listed investments	3,495	10%	350	200	10%	20

Notes to the Financial Statements continued

For the financial year ended 31 December 2009

24. Financial Instruments continued

b) Currency Risk

Other than borrowings as set out in note 20, the Group's foreign currency cash and bank balances at the year end were not material and are not separately disclosed in the Financial Statements. Where relevant, currency is bought or sold at the time of trading in order to meet the funds due or receivable on settlement.

The fair value at the year end of available-for-sale investments, bull positions and other holdings which were denominated in foreign currencies was:

	2009 £'000	2008 £'000
Held in United States dollars	4,193	8,060
Held in Euros	13	2,284
	4,206	10,344

The Group enters into forward contracts for the sale of foreign currencies in order to hedge its exposure to fluctuations in currency rates in respect of these bull positions and other holdings. These forward contracts are fair valued at the balance sheet date based on a discounted cash flow basis using relevant market data on foreign exchange and interest rates, with any change in value taken to the Income Statement.

The amount taken to the Income Statement during the year was a loss of £1,040,000 (2008: £1,141,000).

As at the year end the fair value of forward contracts which were hedging bull positions and other holdings was a net liability of £30,000 (2008: £1,276,000 net liability). The related notional contracts as at 31 December 2009 were £2,601,000 (2008: £9,360,000).

The table below illustrates the sensitivity of the profit for the year and of equity with regards to currency movements on financial assets and liabilities denominated in foreign currencies.

The retranslation of net investment in foreign currencies is excluded from the following table.

Based on a 5% movement in the Euro and US Dollar against sterling exchange rates, the effect on profit for the year and equity would be as follows:

	2009		2008	
	Euro £'000	US Dollar £'000	Euro £'000	JPY £'000
5% Stronger against GBP	244	(291)	44	–
5% Weaker against GBP	(221)	263	(40)	–

In addition, the underlying assets and associated liabilities of Puma Brandenburg Limited are all denominated in Euros. Following the year end the company announced proposals to demerge these assets and associated liabilities (see Note 27a) and accordingly are not included in the above tables.

c) Interest Rate Risk

The Group exposure to long-term fixed borrowings is set out in note 20.

The interest bearing financial assets and liabilities of the Group comprise cash and cash equivalents, bank overdrafts and bank borrowings as shown in the consolidated balance sheet. Cash and cash equivalents receive, and bank overdrafts pay, interest at floating rates linked to either bank base rates or money market rates. The Group has a £15m overdraft facility and a £5m revolving advance facility which are both renewable annually, and a £15m multi-currency loan facility that has a minimum term until 29 June 2012. These borrowings pay interest at rates linked to money market rates for the relevant currency. The Group also has an amortising loan of $17,385,000 for which the interest is fixed until 31 December 2012. Thereafter, the rate of interest is linked to USD money market rates. The bank borrowings are described in more detail in note 20.

Interest rate sensitivity analysis

Interest on financial instruments classified as floating rate is reset at intervals of less than one year.

A positive 100 basis point movement in interest rate applied to the average value of balance sheet items which are subject to floating interest rates would result in the following impact on profit for the year:

	2009 £'000	2008 £'000
+100 basis point movement in interest rates	7	104
As percentage of total shareholders' equity	0.005%	0.16%

The Group would experience an equal and opposite impact on profit should the interest rate move by negative 100 basis points.

24. Financial Instruments continued

d) Credit Risk

The Group's principal financial assets are cash and cash equivalents, trade and other receivables.

The Group's cash and cash equivalents are held with a diversified range of banks, each of which is a major UK clearing bank and supported by a government guarantee.

The Group's main credit risk is attributable to its trade and other receivables. The amounts shown in the balance sheet arise from trading in equities. The Group seeks to deal with credit-worthy counterparties and the majority are financial institutions. As a result, the counterparties are generally subject to certain minimum capital requirements which serves to limit the credit risk to the Group.

The Group monitors defaults of customers and other counterparties and incorporates this information into its credit risk controls. Where available, external credit ratings and/or reports on customers and other counterparties are obtained and used. The carrying value of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk. The Group's top 5 trade receivables counterparty exposures are as follows:

	2009 £'000
TD Waterhouse	6,631
Jupiter Asset Management	2,704
Pershing Securities Limited	1,614
Redmayne Bentley	1,377
Charles Stanley and Company	1,131

	2008 £'000
TD Waterhouse	1,564
Barclays Bank Trust	576
Halifax	318
Pershing Securities Limited	261
Hargreaves Lansdowne	249

e) Liquidity Risk

Ultimate responsibility for liquidity management rests with the board of directors. The Group manages liquidity risk by maintaining adequate cash reserves, banking facilities and borrowing facilities to meet its actual and forecast cash flows and matching maturity profiles of financial assets and liabilities. Note 20 includes details of undrawn facilities available to the Group.

Maturity profile of financial liabilities

The table below reflects the contractual maturities, including interest payments, of the Group's financial liabilities as at 31 December:

2009	Repayable on demand £'000	Due within 3 months £'000	Due between 3 months and 12 months £'000	Due between 1 year and 5 years £'000	Due after 5 years £'000	Total £'000
Bear positions	–	3,243	–	–	–	3,243
Trade payables	–	12,114	207	12	–	12,333
Derivatives	–	90	180	479	–	749
Bank loans and overdrafts	–	222	659	18,347	10,336	29,564
Other liabilities	–	5,889	2,577	–	–	8,466
Accruals	–	687	–	–	–	687
	–	22,245	3,623	18,838	10,336	55,042

Notes to the Financial Statements continued

For the financial year ended 31 December 2009

24. Financial Instruments continued

2008	Repayable on demand £'000	Due within 3 months £'000	Due between 3 months and 12 months £'000	Due between 1 year and 5 years £'000	Due after 5 years £'000	Total £'000
Bear positions	–	857	–	–	–	857
Trade payables	–	6,139	–	–	–	6,139
Derivatives	–	1,367	273	726	–	2,366
Bank loans and overdrafts	–	259	770	18,864	12,438	32,331
Other liabilities	–	3,801	139	–	–	3,940
Accruals	–	2,967	–	–	–	2,967
	–	15,390	1,182	19,590	12,438	48,600

The contractual maturities relating to the bank loans reflect gross cash flows, which differ to the carrying values of the liabilities at the balance sheet date.

f) Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms length transaction.

For trading portfolio assets and liabilities, financial assets and liabilities designated at fair value and financial investments available-for-sale which are listed or otherwise traded in an active market, for exchange-traded derivatives, and for other financial instruments for which quoted prices in an active market are available, fair value is determined directly from those quoted market prices (level 1).

For financial instruments which do not have quoted market prices directly available from an active market, fair values are estimated using valuation techniques or models, based wherever possible on assumptions supported by observable market prices or rates prevailing at the Balance Sheet date (level 2). This is the case for some unlisted investments and other items which are not traded in active markets.

For some types of financial instruments, fair values cannot be obtained directly from quoted market prices, or indirectly using valuation techniques or models supported by observable market prices or rates. This is the case for certain unlisted investments. In these cases, fair value is estimated indirectly using valuation techniques or models for which the inputs are reasonable assumptions, based on market conditions (level 3).

2009	Level 1 Quoted market price £'000	Level 2 Market observable inputs £'000	Level 3 Non-market observable inputs £'000	Total £'000
Available for sale financial investments	3,495	5,597	2,170	11,262
Bull positions and other holdings designated at fair value	5,387	5,609	–	10,996
Total financial assets	8,882	11,206	2,170	22,258
Bear positions	3,243	–	–	3,243
Derivatives	–	749	–	749
Total financial liabilities	3,243	749	–	3,992

Included in the fair value of financial instruments carried at fair value on the Balance Sheet are those estimated in full or in part using valuation techniques based on assumptions that are not supported by market observable prices or rates (level 3).

There may be uncertainty about a valuation, resulting from the choice of valuation technique or model used, the assumptions embedded in those models, the extent to which inputs are not market observable, or as a result of other elements affecting such uncertainties and are deducted from the fair value produced by the models or other valuation techniques.

All models used for valuation undergo an internal validation process before they are approved for use.

There have been no significant movements between level 1 and level 2 during the year.

24. Financial Instruments continued

f) Fair value of financial instruments continued

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

	At 1 January 2009 £'000	Losses recorded in profit or loss £'000	Purchases and transfers £'000	Sales and transfers £'000	**At 31 December 2009 £'000**
Total financial assets	1,991	(65)	1,019	(775)	**2,170**

Based on the established fair value and model governance policies and the related controls and procedural safeguards the Group employs, management believe the resulting estimates in fair values recorded in the Balance Sheet are reasonable and the most appropriate at the Balance Sheet date.

25. Regulatory Capital

The Group's lead regulator is the Financial Services Authority (FSA). Three of the Group's operating subsidiaries are regulated by the FSA which imposes a minimum level of regulatory capital which must be maintained by each company and also an overall level of regulatory capital which must be maintained by the Group.

As a result of the Group's history of strong organic growth, retained reserves have been the primary source of capital resources. The Group's balance sheet is strong and it continues to generate cash from its operations.

Capital resources are largely comprised of share capital and reserves, net of intangible assets and own shares. Capital requirements are derived from credit risk, market risk and operational risk considerations. Capital resources, capital requirements and surplus capital at the balance sheet dates were as follows:

	2009 £'000	2008 £'000
Group		
Capital resources	**74,996**	64,102
Less Capital Resources Requirement	**(15,138)**	(12,433)
Surplus capital resources	**59,858**	51,669

26. Acquisitions

On 25 September 2009 the Group's interest in Puma Brandenburg Limited ("PBL") increased to 94.97% by way of an amalgamation under Guernsey law. This acquisition was undertaken to give PBL a shareholder base which was able to provide it with the strategic support necessary to enable it to capitalise upon the value of its assets in the longer term.

Prior to the amalgamation, the Group had a holding which it had acquired for a consideration of £10,167,000. The amalgamation included a cash payment to external shareholders which was funded from PBL's cash resources. The fair value of the assets acquired was £676,122,000 and the fair value of the liabilities associated with these assets was £602,809,000. The fair value of the net assets acquired exceeded the consideration paid and consequently created negative goodwill of £63,146,000 which has been credited in the Consolidated Income Statement.

During the period from acquisition to the year end, PBL generated £3,497,000 of profit after tax which has been credited in the Consolidated Income Statement, and a net loss from cash flow hedges and exchange differences of £25,000 which has been charged in the Statement of Comprehensive Income.

As at 31 December 2009 the assets relating to this acquisition were £578,815,000 and the liabilities associated with these assets were £512,197,000.

The underlying assets and associated liabilities of PBL are all denominated in Euros

Following the year end the company announced proposals to demerge these assets and associated liabilities (see Note 27b).

Notes to the Financial Statements continued

For the financial year ended 31 December 2009

27. Events After the Balance Sheet Date

a) Scheme of Arrangement

On 18 February the Company announced proposals involving a scheme of arrangement (the "scheme") relating to the corporate structure and organisation of the Group. These proposals include demerging the Group's interest in Puma Brandenburg and establishing new holding companies, Shore Capital Group Limited and Puma Brandenburg Holdings Limited, to hold the two separated businesses. The proposals also involve creating a split capital structure in Puma Brandenburg Holdings Limited.

It is intended to apply for Shore Capital Group Limited's shares to be admitted to trading on AIM. In the case of Puma Brandenburg Holdings Limited, it is intended that both its "income" and "capital" shares will be listed on the Euro MTF (a Luxembourg Stock Exchange).

The scheme proposals were approved by shareholders at a meeting held on 8 March 2010 and, subject only to sanction by the courts, it is anticipated that the proposals will become effective on 26 March 2010.

b) Buyback of shares

During the period from 1 January 2010 to the date of signing these accounts, the Company repurchased 7,333,560 ordinary shares of 2p each to hold in its treasury, at an average price of 38.9p. The total cost in the period was £2,855,000.

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