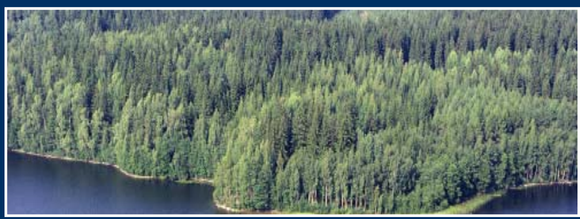
REPORT & ACCOUNTS 2006


Shore Capital Group plc

Contents

Financial calendar (expected dates)

Annual General Meeting	27 April 2007
Final dividend payable of 0.5p per share	1 May 2007
Interim 2007 results announced	September 2007
Final 2007 results announced	March 2007

Highlights

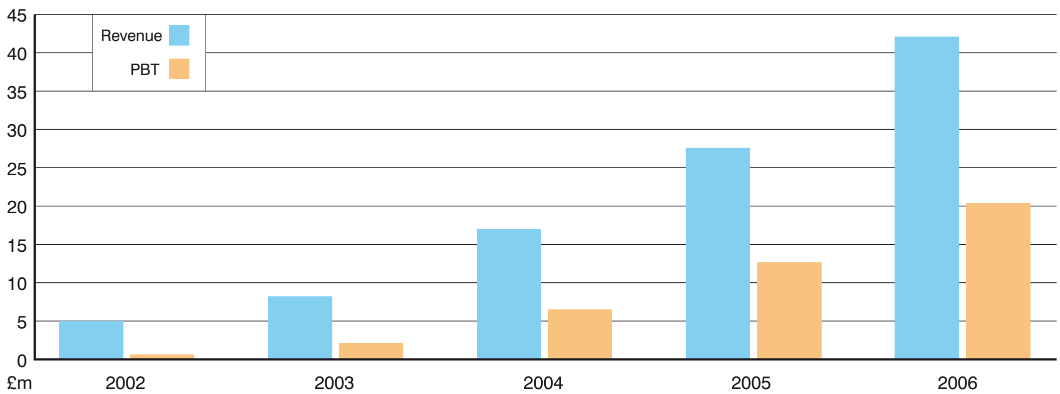
Financial Summary for the year ended 31 December 2006

Twelve months ended 31st December	**2006**	2005	2004**	**2005 – 2006 Increase**
	£m	£m	£m	**%**
Revenue	**42.1**	27.6	17.0	**52.2**
Profit before tax*	**20.1**	12.7	6.5	**58.5**
Earnings per share (pence)*	**4.67**	3.07	1.61	**52.1**
Annual dividend per share (pence)	**1.7**	0.875	0.665	**33.3**

* after charge of £687,000 (2005: £334,00, 2004: £732,000) for cost of employer's national insurance on Group share options
** 2004 added for illustrative purpose

- All areas of the business, across our five diverse business streams, show continuing strong growth;
- Return before tax on capital employed of 44.3 per cent (2005: 35.9 per cent);
- Rapidly increasing level of primary transactions: £570m raised in 2006;
- Funds under management over $2.3 billion at the end of February 2007;
- Five new fund launches in 2006, including a hedge fund (which has had an extremely strong start in its first quarter) and a German property fund;
- Track record over 10 years of alternative asset funds and structured finance products is 32.8 per cent p.a.;
- Continued growth in secondary stockbroking and market-making (now market maker for 1,150 stocks, we remain second largest on AIM, and third largest on the London Stock Exchange as a whole);
- Established German office as a nucleus for investment banking, also servicing our property advisory business;
- Raised £18.2m in placing of new shares in December 2006 to help fund further expansion;
- Strong start to 2007 for all areas of the Group.

5 year track record



Corporate Profile

Shore Capital is an investment banking group which specialises in equity capital market activities and investment in 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. Shore Capital Limited manages specialist funds, with a particular focus on alternative asset classes. We have established Shore Capital International Limited to provide investment banking and asset management services in Germany and Eastern Europe. In addition Shore Capital also conducts principal finance activities using our own balance sheet.

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

Equity capital markets

- specialist sales to, and research for, institutions in mid and small cap stocks and selected larger cap stocks;
- 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 1,150 stocks and is the second largest market-maker on AIM by stock coverage.

Specialist fund management – current products

- growth capital, both quoted and unquoted, including pre-IPO finance;
- commercial property in the UK;
- residential, mixed use and commercial property in Germany;
- diversified portfolios of hedge funds, including an open ended fund of funds and a leveraged feeder fund;
- specialist hedge funds, the first being in statistical arbitrage of volatility in indices of major stock markets;
- structured vehicle investing in UK hotels;
- innovative venture capital trusts (“VCTs”) combining growth capital and “absolute return” products such as hedge funds;
- 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 £1.2 billion.

Shore Capital Group plc is independently owned with its management as substantial shareholders. Its shares are listed on the Official List of the London Stock Exchange. 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 on investments in entrepreneurial businesses. Over the last decade 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 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:

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 specialty finance and insurance, leisure, construction, property, support

services, pharmaceuticals and bio-tech, information technology software and hardware and Israeli securities;

- secure and efficient settlement and custody arrangements through Pershing Securities, a subsidiary of the Bank of New York;
- 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 1,150 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.

Adisory 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.

Puma Funds

Growth capital – Puma II and Puma VCTs

- specialist fund, Puma II, established in 1999 with a 5-7 year life. This is now being liquidated. The Fund was dedicated to development capital opportunities, both pre-IPO and quoted securities;
- our Puma VCTs established in 2005 and 2006 with nearly £60m to invest both pre IPO and at flotation. Able to provide 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.

Commercial Property and Hotels

- commercial property fund raised in 2002 to invest £125m in UK property. Last properties sold in 2006 and fund is in the final stages of liquidation. Delivered IRR of 39 per cent p.a;
- established Dawnay Shore Hotels in 2004, a specialist vehicle to acquire portfolios of UK regional hotels. Now owns 20 major hotels, financed using bank leverage and investment from Shore Capital's clients, Shore Capital and its partner Dawnay Day;
- launched Puma Brandenburg in 2006 to buy residential and mixed use property in Germany, particularly Berlin;
- each property vehicle has used or will use leverage to take advantage of the gap between property yields and medium term borrowing rates;

Hedge Funds and Alternative Assets

- track record of consistent performance with own portfolio of hedge funds;
- fund of hedge funds launched in May 2003 as Dublin listed investment company (IRR of 9.6% p.a. since inception with low volatility);
- focus on selecting the right managers and building the appropriate portfolio to diversify risk;
- launched leveraged version of the fund of hedge funds in March 2005;
- launched Puma Sphera in November 2006, equity long/short fund specialising in Israeli and Israeli related stocks quoted on NASDAQ, Tel Aviv and London.

Shore Capital International

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

Chairman's Statement

Our Equity Capital Markets division is seeing continued growth in both primary business and secondary stockbroking, benefiting from the integrated sales, research and corporate finance team we have built up over the last four years. During 2006 we launched five new products for our principal finance and alternatives business. Some of the more mature ventures such as Puma Property and Dawnay Shore Hotels have made a substantial contribution in performance-related income as well as in management fees. We believe that some of the newer ventures also have this potential.

Introduction

I am pleased to be able to present another year of progress, with strong growth in both revenue and profitability. Our equity capital markets business ("ECM") performed well, with the contribution from primary deals becoming more significant (of £570m in primary transactions, £315m were in the second half), as well as a continuing good growth in secondary activity.

We again expanded our alternative asset class and specialist fund offerings during the year with five new product launches. The established funds showed strong returns and our track record is now providing a platform for growth. Some of the more mature products made a significant contribution, both from our balance sheet holdings and carried interests in these products, as well as from the management fees.

Financial Review

Revenue for the year was £42.1m (2005: £27.6m), an increase of 52.2 per cent. Administrative expenses grew 47.3 per cent, reflecting expansion into new areas as well as the mix of fixed costs and activity-related staff remuneration. As a result the Group achieved an operating profit of £19.9m (2005: £12.6m), an increase of 58.0 per cent.

Interest income was £620,000 (2005: £404,000), the increase reflecting cash generated, fund-raising and higher interest rates. Finance costs rose marginally, reflecting higher borrowings within the stockbroking business, where our market-makers fund the difference between settlement dates on purchases (usually T+3) and sales (often T+10 for counterparties acting for retail clients). The net effect of these changes was to give a contribution from net investment income and finance costs of £188,000 (2005: £80,000). Profit before tax was £20.1m (2005: £12.7m) after making an accrual of £687,000 (2005: £334,000) for the cost of employers' national insurance on Group share options. This generated earnings per share of 4.67p (2005: 3.07p), an increase of 52.1 per cent. It should be noted that the earnings per share figure does not take account of a tax credit of £521,000, worth a further 0.19p per share.

The operating margin and net margin before tax both rose, again reflecting the mix of income and operational gearing. The overall operating margin was 47.2 per cent in the year (2005: 45.5 per cent). ECM, which represented 58.9 per cent of Group income, saw its operating margin rise to 34.9 per cent (2005: 33.2 per cent). The overall net margin before tax was 47.7 per cent (2005: 45.8 per cent).

Share Placing

We completed a placing of new shares on 5th December 2006, raising approximately £18.2m in new equity by the issue of 27,150,794 new shares at 67p per share. The shares were placed with institutional and other investors. The net proceeds of the placing will be used to provide additional working capital for the Group to support its further growth across the diverse income streams of equity capital markets, principal finance and alternative asset management.

Balance Sheet

Our balance sheet continues to grow from internally generated resources as well as from the issue of new shares. Total equity at the year end was £78.1m (2005: £44.0m), of which cash represented £8.3m, £5.2m net was held in quoted equities, a further £36.2m in the various Puma Funds and other liquid hedge funds and £20m in other liquid assets. The balance of £8.4m comprised mainly net market debtors.

Returns generated from our balance sheet have represented a growing stream of income, primarily returns from principal finance transactions and returns from the seeding of funds we promote.

Return on Capital Employed

I have previously stated that we regard return on total capital employed as a key measure of the performance of the Group as a whole. We are therefore pleased to report that return before tax on total capital employed was 44.3 per cent for the year (2005: 35.9 per cent). It will obviously become increasingly difficult to sustain this level of return as the balance sheet grows. Nevertheless, it remains a key measure.

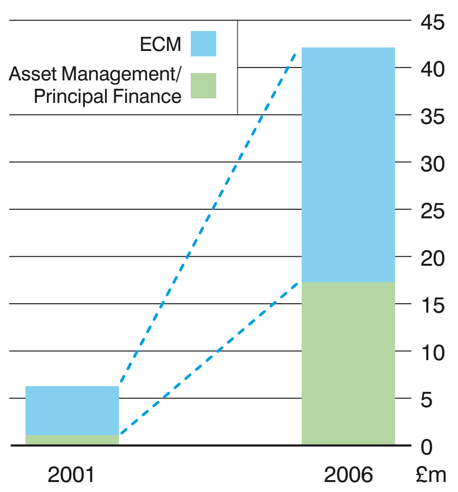
Dividend

In the light of the positive trading results for the year, we propose a final dividend of 0.67p per share, making 1.17p per share in respect of 2006 as a whole (2005: 0.875p). This represents a distribution of approximately 26 per cent of profits after tax and minority interests. The dividend is expected to be paid on Tuesday, 1st May 2007 to shareholders on the register as at Friday, 9th March 2007.

Operating Review

Our business is divided into two areas where, by serving entrepreneurs, companies and institutions, we can be strong and profitable participants: these are equity capital markets and principal finance/alternative asset class funds.

Diversification of income streams



Equity Capital Markets (ECM)

This business offers a full service in equity capital markets, spanning research in a broad range of sectors, broking for institutional and professional clients, market-making in AIM and small cap stocks and corporate finance for mid and small cap companies. ECM now has a staff of some 68 people and is continuing to recruit. We opened a new trading floor in January 2006 to provide the space to expand, both in sales and trading and elsewhere in the Group using the space vacated.

Research and Sales

Our institutional sales and research activity is now well established and highly regarded by fund-managers. Revenue from secondary business continued to grow during 2006, as we added both to our sales team and to our research resource. The team also successfully undertook considerably more primary activity during the year.

A notable recruit to the sales team, John Phelps, joined in January 2007. Until recently John was Head of Sales at Collins Stewart, and joined us as Senior Equity Salesman. His strong client relationships will extend and deepen the reach of Shore Capital's equity sales team and he also brings extensive expertise of the primary issue market.

Our team of analysts now research over 260 stocks in a broad range of sectors within consumer related industries, technology, financial services, property and construction; we have continued to increase our coverage and add analysts of quality where we can see a market opportunity. New sectors added in 2006 include pharmaceuticals, biotech and European property investment and development companies.

Market-making

Market-making performed well during the year, benefiting from strong trading volumes at various times during the year, the expanding number of stocks on AIM and the broader range of electronic links we have installed to enable us to deal directly with major retail brokers.

We have again increased the number of stocks covered by 15 per cent (now 1,150, compared to just about 1,000 a year ago) and maintain strong relationships with the major retail houses which are our main customers. We will continue to seek to widen the range of electronic channels through which we deliver our Retail Service Provider service, building on the success in 2006.

Our market-making division also benefits from the more active involvement of fund-managers in the day to day trading of AIM stocks and we are therefore able to use our extensive institutional contacts to add to and complement the business we transact.

London Stock Exchange statistics show that by number of stocks covered we remain the second largest market-maker on AIM and the third largest on the London Stock Exchange as a whole.

Corporate Finance

The corporate finance team continued to increase their list of retained clients (now 52 public companies) and completed 19 transactions during 2006, slightly fewer than in the previous year, but these were generally larger, more complex and more remunerative. As a result, both retainers and transaction fees showed good growth. As was the case in 2005, the percentage increase achieved by this department was the largest within the ECM business but still represents a much smaller proportion of turnover than most of our major competitors in the ECM business. It is catching up with the growth of our institutional sales and broking business and is growing rapidly, benefiting from our strength as a full service ECM. The total funds raised in 2006, £570m (of which £315m was in the second half), was a record for the firm.

During the second half of the year, the business continued to gather momentum. We were particularly

Operating Review continued

Some of the transactions completed by our corporate finance team during 2006.

pleased to be appointed as a corporate stockbroker to Tesco plc for the implementation of its share buy-back programme, reflecting the reputation of our food retailing research team and our strong execution capability. In December alone, we acted as sole co-manager on a deal where Morgan Stanley were manager and bookrunner to float a Russian property developer, R.G.I. International Limited, we acted as broker and bookrunner to float Fabian Romania Property Fund Limited, a property fund investing in Romania, where Deloitte were nomad and we acted as nomad and co-broker to float Phaunos Timber Fund Limited, a fund investing in timber and timber related products where LCF Edmond de Rothschild were co-placing agent.

Investment Management and Alternative Assets

We are very pleased to report the continuing good performance of our fund management activity, with gains across the board. Moreover, the product portfolio continued to expand with the launch of five new funds in 2006: Puma Brandenburg (German real estate), two further Puma VCTs, Puma Sphera (an equity long/short hedge fund) and an AIM Inheritance Tax product. At the same time 2006 saw the sale of all its properties and liquidation of Puma Property, a fund which has delivered spectacular medium term returns, the closure of Puma Theta, whose performance did not match expectations (over its 11 months of operation Theta achieved a small gain). At the end of the year, steps were initiated to liquidate Puma II, which is at the end of its 7 year life, and Dawnay Shore Hotels became the subject of a strategic review.

Whilst some of the more mature products made a significant contribution from the seeding of these funds and the related carried interests, it is particularly pleasing to see new product launches providing exciting opportunities for the future. We believe that if investors receive good returns, then returning cash should not prevent growth of funds under management as investors reinvest in new asset class opportunities.

The table opposite summarises the performance of the various funds we run, both absolute and relative return, for the year 2006 where applicable and since inception. In the case of Dawnay Shore Hotels, this is shown to the date of the latest external property valuation. As this was prior to the end of 2006 it is not yet possible to show a figure for the full year.

Funds Under Management

Funds under management as at 31 December 2006 were £979m ($1.92 billion), a 45 per cent increase on the £675m ($1.23 billion) at 31 December 2005. These figures take account of the return of cash to investors in Puma Property and Puma Theta and the launches of new products as well as strong fund performance. Since the year end, we expect that funds under management will have increased to £1.2 billion ($2.3 billion) by the end of February 2007.

Puma Brandenburg

In March 2006 we raised £185m in new equity for Puma Brandenburg Limited ("Puma Brandenburg"), a new property fund to be managed by a subsidiary of the Group, Puma Property Advisors Limited ("PPAL"). The fund's strategy is to invest in a diversified portfolio of real estate in Germany.

Since launch Puma Brandenburg has invested nearly €400m in 7 separate purchases of residential, mixed use and commercial properties. It has acquired approx 200,000m^2 of residential and mixed use property in and around Berlin at prices varying considerably depending on location, condition and rental levels, but all under €130/ft^2, most under €100/ft^2. These acquisitions have been refinanced on attractive terms by a new loan facility underwritten by Deutsche Bank.

Puma Brandenburg also acquired an 88,000m^2 Frankfurt office complex for €199m (excluding associated costs), representing a price per square metre of €2,260 and a yield on purchase of 7.69 per cent, with an inflation adjusted increase anticipated in the first quarter of 2007. The complex is let to blue-chip tenants. To finance the purchase, Puma Brandenburg has invested €10.7m of equity into a newly constituted special purpose vehicle, whilst Bear Stearns underwrote a €202.4m structured debt financing package. Shore Capital Trading Limited invested £5 million in Puma Brandenburg's placing. Our subsidiary PPAL will receive an aggregate annual fee of 0.4 per cent of the gross value of the properties and property-related assets under management, of which 75 per cent will be retained by Shore Capital. The principals, including Shore Capital, have a carried interest in the success of the company of 20 per cent of returns, subject to an 8 per cent hurdle rate of return.

Puma II

Puma II, our Growth Capital Fund, showed strong performance, with net assets per share growing 13.5 per cent over the year. We successfully realised further of the major investments during the year and, in accordance with the fund's constitution, resolutions were passed in December 2006 for its orderly winding up. We are focused on realising the remaining investments on advantageous terms over the next few months.

Puma Property Fund

This Fund is now in the final stages of liquidation, halfway through its planned life. The Fund sold its entire portfolio for a total of £148.1m, generating a capital gain of £37.9m. Including rents received during the life of the Fund, the limited partners have made a gain of 130 per cent on their total original investment after management fees and carried interest, representing an IRR of over 39 per cent p.a. (from launch in 2002 to closure in 2006). As a result of the disposals, Shore Capital's carried interest in the vehicle has crystallised and we have also received the great majority of our interest as a limited partner.

Dawnay Shore Hotels

Dawnay Shore Hotels plc ("DSH") has been making good progress and is currently undergoing a strategic review. In summary, the company acquired its first

Returns from Absolute Return and Model Portfolio Products.
Performance in 2006 and since Inception (net of management and performance fees).

Absolute Return Products	Inception Date	Asset type	Performance in 2006 %	IRR to Date % p.a.
Puma Absolute Return Fund	May 2003	Fund of hedge funds	10.0	9.6
Puma Enhanced Absolute Return Fund	March 2005	Geared fund of hedge funds	12.8	12.5
Puma VCTs[1]	Apr/May 2005	VCT	6.0	7.1
Puma VCTs III and IV[1]	Apr/May 2006	VCT	2.7	3.4
Puma II	Dec 1999	Growth capital	13.5	7.2
Puma Theta	Oct 2005	Statistical arbitrage	1.3	1.4
Puma Sphera	Dec 2006	Equity long/short	1.3	16.7
Puma Property	July 2002	UK commercial property	In liquidation	39.2
Dawnay Shore Hotels[2]	July 2004	Hotels	Not yet announced	47.3

[1] Weighted composite of two VCTs [2] Based on most recent valuation of properties

Model Portfolios	Inception Date	Asset type	Performance in 2006 %	IRR to Date % p.a.
Growth Portfolio	Feb 2002	Equities, bonds and unit trusts	19.0	7.6
Balanced Portfolio	Feb 2002	Equities, bonds and unit trusts	15.5	9.1
Multi-manager Growth Portfolio	July 2003	Unit trusts	16.3	21.4
Multi-manager Income Portfolio	July 2004	Unit trusts	51.7	18.2
AIM Inheritance Tax	July 2005	Equities	35.2	26.2

10 year track record	Inception Date	Asset type	Performance in 2006 %	IRR to Date % p.a.
Composite of funds	May 1996	Alternative asset class funds and structured finance	n/a	32.8

Operating Review continued

portfolio of 13 four star British regional hotels in July 2004. Following three subsequent acquisitions of portfolios or individual properties, most recently of three Furlong Hotels which included the Lygon Arms, it now holds 20 four and five star hotels under the Paramount brand. The vehicle has been funded using private equity and mezzanine finance raised by Shore Capital and senior debt provided by banks.

Recent transactions in the hotel sector support our belief that EBITDA multiples of assets of this quality have risen substantially. Given the leveraged nature of DSH's funding, this implies a significant uplift in the value of the equity. Moreover, DSH has actively exploited the potential for gains in value through developing the portfolio by adding extra rooms, major refurbishments such as at Hinckley and more wholesale redevelopments such as at Walton Hall near Stratford. There is large scope in the portfolio for further investments of this type. The substantial uplift in hotel valuations in 2006 has provided a significant contribution to the carrying value of our direct interest and our carried interest in this venture. We would expect a further significant contribution in 2007 following the completion and outcome of DSH's current strategic review.

Puma Absolute Return Fund ("PARF")

PARF had an excellent performance in the second half of 2006. As a result, its performance for the year as a whole was a gain of 10.0 per cent, achieved with relatively low volatility, as in previous years.

Following this good performance, PARF has already received a further inflow of $19m in January and we now manage $145m in PARF and $250m in the strategy (including managed accounts) with a further inflow of approximately $16m expected at the end of February.

As expected given the strong performance of PARF, Puma Enhanced Absolute Return Fund ("PEARF"), the twice leveraged version of PARF, achieved significantly enhanced returns, 12.8 per cent for 2006. Both PARF and PEARF have started 2007 well, up by 1.37 per cent and 2.24 per cent respectively in January.

Private Client Investment Management

Our track record for private client investment management continues to be favourable. Here we measure the performance of our model portfolios relative to relevant benchmarks rather than solely in absolute terms. However, we are pleased to note excellent absolute as well as relative performance in 2006, as shown in the table above.

Turning to relative performance, our balanced portfolio has outperformed its benchmark by 10.6 per cent from launch to 31 December 2006. Over the same period, covering almost 5 years to 31 December 2006, the growth portfolio also outperformed its benchmark by 29.7 per cent.

We have also developed additional "long only" products, based on picking "best of breed" long only funds. The growth oriented fund of funds has achieved 97.1 per cent growth from launch at 30 June 2003 to 31 December 2006 and out-performed its benchmark by 20.6 per cent. The newer income-oriented fund of funds has achieved 51.7 per cent from launch at 30 June 2004 to 31 December 2006 and out-performed its benchmark by 13.4 per cent.

During 2006 we launched the Puma AIM IHT service to provide a specially selected portfolio for clients wishing to hold qualifying AIM shares for at least two years in order to be able to pass the portfolio to their heirs free of inheritance tax. We have been running the portfolio for existing clients for eighteen months, over which period it has achieved an IRR of 26.2 per cent, out-performing the AIM index very significantly

Puma Venture Capital Trusts

We launched two further Puma VCTs to take advantage of the higher income tax relief (and increased maximum investment per person) offered for 2005/6 (as for 2004/5). We had conceived a unique combination of a growth capital and alternative asset class fund offering tax free returns as well as an initial 40 per cent tax relief. From launch in December to closing on 5 April 2006 we raised £39 million, making it one of the most successful launches of that fund-raising round. We now manage over £60m in VCTs. The performance of the first two VCTs has exceeded our internal targets, with a return of 12.4 per cent since inception and an IRR of about 7.1 per cent p.a. We have not launched further VCTs in 2007, as the tax regime is more restrictive this year for new funds and a narrower investment universe is likely to drive down returns.

Puma Sphera

We launched a new hedge fund, Puma Sphera, in December 2006. This is an equity long/short fund drawing on the long established and proven expertise of Sphera Fund Management of Tel Aviv. It will replicate a proven, fundamentally driven strategy managed by Sphera since 2001, focused mainly on Israeli and Israeli-related companies listed on the

Tel Aviv, Nasdaq and other international exchanges. The strategy is already supported by nearly $150m of local institutional and private investors' capital and Puma Sphera makes it available to international investors for the first time. Sphera is the largest Tel Aviv based hedge fund manager by a considerable margin, as the Israeli hedge fund industry is embryonic.

The strategy gained 211.9 per cent net from the beginning of 2001 to the end of 2006, over which period the local TASE 100 index was up 88.4 per cent and the Nasdaq down 2.2 per cent. Average annualised returns have been 21 per cent net since 2001, with low double digit volatility.

Puma Sphera's first quarter has had an extremely promising start, gaining 1.3 per cent in December and 2.1 per cent in January 2007, with a further very strong contribution expected in February.

Orchid Developments

We have been pleased to see the continued progress of Orchid Developments, the Bulgarian property developer, for which we provided seed finance, raised funding from clients, assisted in its growth and subsequently managed the flotation. Orchid raised a further €25m of equity in June 2006 in a secondary placing at a substantial premium to its flotation price.

Long Term Track Record

We have calculated the track record of our alternative asset class funds and structured finance products since our first launch, Puma 1, in May 1996. Over this period, covering more than ten years, we calculate that the net return to investors from a composite of the vehicles was 32.8 per cent p.a.

German Office

During 2006 we opened an office in Berlin to undertake principal finance transactions, capital raisings and real estate advisory work.

The Berlin office has recruited local professionals and currently has a team of some eleven employees and consultants. We see this office, which has no major direct competitors able to offer the same suite of investment banking services, as a springboard to enable us to access a fast-growing market not only in Germany, a very large economy where all the recent macro-economic data would seem to suggest a recovery, but also for Eastern Europe as well. We intend that the office will help us source and execute principal finance deals and possibly launch other alternative asset class funds. It should also enable us to leverage off our growing connections with the local market to service entrepreneurial companies seeking to raise money and conduct business on the London AIM market. In this context, we are hosting a seminar and cocktail reception, together with the London Stock Exchange's AIM Team, in Berlin on 8 March.

Employees

I should like to take this opportunity to thank our employees for their commitment and hard work during the year. Without all their efforts it would not have been possible to achieve the progress we have made over the last few years. In particular, I should like to congratulate the directors and senior management of the ECM business for making such significant progress in enhancing our market positioning and the principal and alternatives team for their contribution to our performance.

Current Trading and Prospects

As expected, our asset management division made an important contribution to the second half. In ECM we are seeing continued growth in both primary business and secondary stockbroking, benefiting from the integrated sales, research and corporate finance team we have built up over the last four years.

During 2006 we launched five new products for our principal finance and alternatives business. Some of the more mature ventures such as Puma Property and Hotels have made a substantial contribution in performance-related income as well as in management fees. We believe that some of the newer ventures also have this potential.

Each of our business streams is performing well at present, giving us a platform for a further year of growth with a good diversity of income. The new financial year has started strongly and we are confident about our prospects for 2007.

Howard P Shore

Chairman

26 February 2007

Board of Directors

Howard Shore
Executive Chairman

Howard Shore, 46, founded Shore Capital in 1985. He began his career in private client discretionary fund management with Grieveson Grant & Co (now part of Dresdner Kleinwort Wasserstein). After 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 chairs the investment committees of Puma II, Puma Absolute Return Fund and Puma VCT, is a member of the investment committee of the Puma Property Fund and sits on the Boards of Dawnay Shore Hotels and Puma Brandenburg.

Graham Shore
Group Managing Director

Graham Shore, 50, was previously a partner in the management consultancy division of Touche Ross (now Deloitte & Touche) 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. At Touche Ross he undertook strategy and economic assignments for a wide range of clients. He joined Shore Capital in 1990 and his responsibilities include the appraisal of deals for corporate finance and growth capital.

Michael van Messel
Operations Director

Michael van Messel, 42. 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, 37. 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 and is co-head of the Berlin office.

Barclay Douglas
Non-executive Director

Barclay Douglas, 51, 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 professional 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 a non-executive director of Third Advance Value Realisation Company Limited and Patientline plc. He chairs the Audit Committee and the Remuneration Committee.

Dr Zvi Marom
Non-executive Director

Dr Marom, 52, is founder and CEO of BATM Advanced Communications Limited. He is recognised as one of Israel's most brilliant technologists. 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 also acts as technology adviser to the Puma II Fund managed by Shore Capital Stockbrokers. He is a member of the Audit Committee and the Remuneration Committee.

Senior Management

Rupert Armitage
Head of
Stockbroking Sales

Rupert Armitage, 42, 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.

Dr Clive Black
Head of Research

Dr Clive Black, 43, is one of the UK's top five stockbroking analysts in food and drug retailing. He was rated first for coverage of smaller companies in this sector in the last Reuters' survey. Clive holds a PhD. from the Queen's University of Belfast, his thesis being on the Northern Ireland food industry. He worked in London for the National Farmers' Union for five years and then joined Northern Foods plc. He moved into stockbroking research with Charterhouse Tilney where he was for eight years when it latterly became ING Financial Markets. He joined Shore Capital in 2003 as head of research.

Alexander Borrelli
Head of
Corporate Finance

Alexander Borrelli, 51. After studying medicine, he qualified as a chartered accountant with Deloitte, Haskins & Sells. He joined Guinness Mahon and subsequently spent five years in corporate finance at Samuel Montagu, mostly seconded to W. Greenwell. Prior to joining Shore Capital in 1999, he spent six years at Granville & Co where he was latterly a main board director and in charge of the corporate broking of Granville Davies.

Simon Fine
Head of Equity
Capital Markets

Simon Fine, 42, 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.

Eamonn Flanagan
Head of the
Liverpool Office

Eamonn Flanagan, 43, 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.

Chris Ring
Head of Private Client
Stockbroking and
Portfolio Management

Chris Ring, 52. After spells at both Scrimgeour Kemp Gee, where he was a partner, and Wise Speke where he managed the London office, became Managing Director of NatWest Stockbrokers. He joined the Board of Shore Capital Stockbrokers in 2002 as managing director of private client stockbroking and portfolio management. He is a member of the investment committees of the Puma Absolute Return Fund and Puma VCT.

Officers and Professional Advisers

Directors
H P Shore
G B Shore
M L van Messel
J S Paisner
J B Douglas*
Dr Z Marom*

*Non-executive

Secretary
J S Paisner

Registered Number
2089582

Registered Office
Bond Street House
14 Clifford Street
London W1S 4JU

Registrar
Computershare Investor Services PLC
P.O. Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH

Auditors
Deloitte & Touche LLP
Chartered Accountants
Stonecutter Court
1 Stonecutter Street
London EC4A 4TR

Solicitors
S J Berwin
10 Queen Street Place
London EC4R 1BE

Berwin Leighton Paisner
Adelaide House
London Bridge
London EC4R 9HA

Bankers
The Royal Bank of Scotland plc
Western Branch
60 Conduit Street
London W1R 9FD

Bank of Scotland
New Uberior House
11 Earl Grey Street
Edinburgh EH3 9BN

Bank Leumi (UK) plc
20 Stratford Place
London W1C 1BG

Corporate Governance

General

Throughout the year ended 31 December 2006 the Group has complied with the Code provisions set out in Section 1 of the July 2003 FRC Code on Corporate Governance ("the Code") issued by the UK Listing Authority other than the matters noted below.

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 and Audit Committee report.

Board of Directors

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 judgment. 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. None of the non-executive directors participate in the Shore Capital Group plc 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.

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 commitments that are not related to the activities of the Group (such as 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 only two non-executive directors and a Board of only six 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.

In accordance with the Principles of the Code, one third of the directors retire and offer themselves for re-election each year, and accordingly H P Shore and G B Shore retire and offer themselves for re-election. A brief biography of each director is set out on page 10. Each of H P Shore and G B Shore have continued to contribute effectively in their respective executive roles and demonstrated commitment. They have attended all meetings of the Board held during the year and the Group benefits from their managerial, marketing and technical experience and knowledge. The Board has an informal annual review process to assess how each of the Directors are performing, including assessing their continuing contribution to the Group's objectives.

The Board met four times during 2006 and was supplied with Board papers in advance of each meeting covering the Group's principal business activities. 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 2006	4	2	2
Number of meetings attended in 2006			
H P Shore	4	–	–
G B Shore	4	2	–
M L van Messel	4	–	–
J S Paisner	4	–	–
J B Douglas	4	2	2
Dr Z Marom	4	2	2

Corporate Governance continued

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 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

Having considered the guidance given in the document Going Concern and Financial Reporting: Guidance for Directors of Listed Companies issued in November 1994 by the Going Concern Working Group, the directors have formed a judgement at the time of approving these financial statements that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis in 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. In addition, a number of the activities that 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 Schedule 7A to the Companies Act 1985. 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. As required by the Regulations, 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 1985. 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 that 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 and for fifteen minutes prior to and during the forthcoming Annual General Meeting. 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.

Directors' Remuneration Report continued

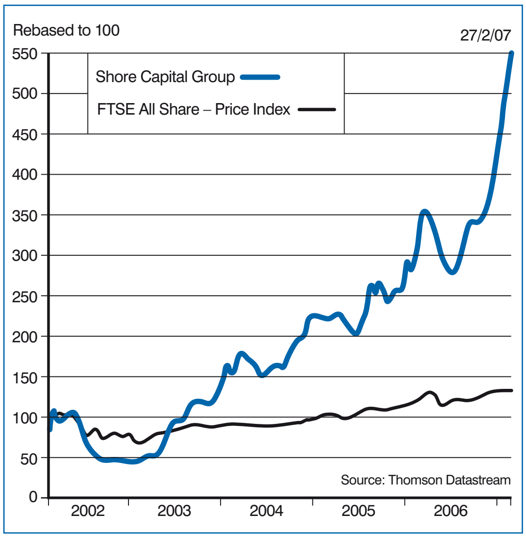
Share options
Details of the Shore Capital Group plc Share Option Plan as well as directors' interests in the Share Option Plan are given in note 6 to the financial statements. The Committee has responsibility for supervising the scheme and the grant of options under its terms.

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 continuing service and the options of the directors do not vest until the end of three years from the date of grant. 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 FTSE-All Share Index. This index has been selected for this comparison because it 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.

Director's 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
2 March 2007

Directors' Report

The directors present their annual report and the audited financial statements of the Group for the financial year ended 31 December 2006.

Activities and business review

The principal activities of the Group consist of investment banking including stockbroking, market making, corporate finance advice, asset management and specialist fund management.

A review of the year and future developments is contained in the Chairman's statement on pages 4 to 9. The statement also includes details of the key performance indicators that management use.

Results and dividends

The results for the financial year are set out on page 20. An interim dividend of 0.5p per share (2005: 0.375p) was paid during the year; the directors propose a final dividend of 0.67p per share (2005: 0.5p) making a total for the year of 1.17p per share (2005: 0.875p).

Share capital

The movements in share capital during the year are set out in note 21 to the financial statements.

Fixed assets

Movements in fixed assets are set out in notes 12 to 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 22.

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 2006	31 December 2005
H P Shore	**100,147,359**	100,147,359
G B Shore	**21,652,820**	21,652,820
M L van Messel	**2,664,042**	2,664,042
J S Paisner	**1,000,000**	1,000,000
Dr Z Marom	**501,521**	501,521
J B Douglas	**1,000,000**	600,000

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.

Charitable and political donations

The Group made charitable donations of £30,000 (2005: £76,000) during the year. Political donations of £50,000 (2005: Nil) were made to Conservative Central Office.

Environmental policy

The Group aims wherever appropriate to be environmentally conscious. During the year, it arranged for a large volume of waste paper to be recycled and for redundant computer equipment to be collected for recycling and environmentally sound disposal.

Creditor payment policy

The policies that the company and Group followed for the payment of creditors 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 26 days (2005: 34 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 26 February 2007:

	Ordinary Shares	%
Jupiter Asset Management	26,679,800	8.8
The J P Morgan Fleming Mercantile Investment Trust Plc	25,337,543	8.4

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 director has taken all the steps that 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 s234ZA of the Companies Act 1985.

Deloitte & Touche LLP have expressed their willingness to continue in office and a resolution to reappoint them as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

By order of the Board
J S Paisner
Secretary

Bond Street House
14 Clifford Street
London W1S 4JU

2 March 2007

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements. The directors are required to prepare financial statements for the group in accordance with International Financial Reporting Standards (IFRS) and have also elected to prepare financial statements for the company in accordance with IFRS, the Companies Act 1985 and Article 4 of the IAS Regulations.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' remuneration report which comply with the requirements of the Companies Act 1985.

The directors are responsible for the maintenance and integrity of the company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Independent Auditors' Report to the Members of Shore Capital Group plc

We have audited the group and parent company financial statements (the ''financial statements'') of Shore Capital Group plc for the year ended 31 December 2006 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statements of Changes in Equity and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2006 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2006;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London, United Kingdom

2 March 2007

Consolidated Income Statement

For the year ended 31 December 2006

	Notes	2006 £'000	2005 £'000
Revenue	1, 2	**42,065**	27,644
Administrative expenditure		**(22,201)**	(15,074)
Operating profit	3	**19,864**	12,570
Investment income	4	**620**	404
Finance costs	5	**(432)**	(324)
		188	80
Profit before taxation	2	**20,052**	12,650
Taxation	7	**(5,968)**	(3,387)
Profit for the year		**14,084**	9,263
Attributable to:			
Equity holders of the parent		**12,850**	8,537
Minority interests		**1,234**	726
		14,084	9,263
Earnings per share			
Basic	10	**4.67p**	3.07p
Diluted	10	**4.43p**	3.07p

All transactions in the current and prior years are in respect of continuing operations.

Consolidated Balance Sheet

As at 31 December 2006

	Notes	2006 £'000	2005 £'000
ASSETS			
Non-current assets			
Goodwill	12	**381**	381
Property, plant & equipment	13	**717**	594
Available-for-sale investments	6.c, 14	**1,572**	1,256
Deferred tax asset	7	**3,949**	–
		6,619	2,231
Current assets			
Bull positions and other holdings	15	**62,794**	31,390
Trade and other receivables	16	**36,840**	33,871
Cash and cash equivalents	6.c, 17	**8,332**	7,734
		107,966	72,995
Total assets		**114,585**	75,226
LIABILITIES			
Current liabilities			
Bear positions		**(2,974)**	(1,840)
Trade and other payables	18	**(26,091)**	(21,383)
Tax liabilities		**(5,966)**	(1,918)
Bank overdrafts	17	**(9)**	(5,092)
		(35,040)	(30,233)
Non-current liabilities			
Provision for liabilities and charges	19	**(1,482)**	(1,017)
Total liabilities		**(36,522)**	(31,250)
Net Current Assets		**72,926**	42,762
Net Assets	2	**78,063**	43,976
EQUITY			
Capital and Reserves			
Called up share capital	21	**6,032**	5,408
Share premium account		**19,248**	1,030
Capital redemption reserve		**971**	971
Other reserve		**665**	422
Retained earnings		**48,351**	34,269
Equity attributable to equity holders of the parent		**75,267**	42,100
Minority interest		**2,796**	1,876
Total equity		**78,063**	43,976

Approved by the Board of Directors on 2 March 2007.

Signed on behalf of the Board of Directors

H P Shore	**M L van Messel**
Director	Director

Company Balance Sheet

As at 31 December 2006

	Notes	2006 £'000	2005 £'000
ASSETS			
Non-current assets			
Property, plant & equipment	13	**105**	108
Investments in subsidiaries	14	**33,685**	33,685
Loan to subsidiary		**1,800**	1,800
Deferred tax asset	7	**3,578**	–
		39,168	35,593
Current assets			
Trade and other receivables	16	**1,121**	220
Amounts owed by subsidiary undertakings		**16,851**	11,184
Cash and cash equivalents	17	**1,118**	71
		19,090	11,475
Total assets		**58,258**	47,068
LIABILITIES			
Current liabilities			
Trade and other payables	18	**(2,691)**	(2,443)
Amounts owed to subsidiary undertakings		**(2,227)**	(12,207)
Tax liabilities		**(242)**	–
Bank overdrafts	17	**–**	(63)
		(5,160)	(14,713)
Non-current liabilities			
Provision for liabilities and charges	19	**(1,482)**	(1,017)
Total liabilities		**(6,642)**	(15,730)
Net Current Assets/(Liabilities)		**13,930**	(3,238)
Net Assets		**51,616**	31,338
EQUITY			
Capital and Reserves			
Called up share capital	21	**6,032**	5,408
Share premium account		**19,248**	1,030
Capital redemption reserve		**971**	971
Other reserve		**256**	202
Retained earnings		**25,109**	23,727
Total equity		**51,616**	31,338

Approved by the Board of Directors on 2 March 2007.

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 2006

	Called up, alloted and fully paid up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other reserve £'000	Retained earnings £'000	Minority Interest £'000	Total £'000
At 1 January 2005	5,270	82	971	163	27,746	1,043	35,275
Retained profit for the year	–	–	–	–	8,537	726	9,263
Credit in relation to IFRS2 charge for share based payments	–	–	–	89	–	–	89
Revaluation of available-for-sale investments:							
– Adoption of IAS32/39	–	–	–	159	–	–	159
– Revaluation in the year	–	–	–	84	–	–	84
– Related deferred tax charge	–	–	–	(73)	–	–	(73)
Equity dividends paid (note 9)	–	–	–	–	(2,014)	–	(2,014)
Shares issued in respect of options exercised	138	948	–	–	–	–	1,086
Issue of shares in a subsidiary to minority interests	–	–	–	–	–	107	107
At 31 December 2005	5,408	1,030	971	422	34,269	1,876	43,976
Retained profit for the year	–	–	–	–	12,850	1,234	14,084
Credit in relation to IFRS2 charge for share based payments	–	–	–	54	–	–	54
Revaluation of available-for-sale investments:							
– Revaluation in the year (note 14)	–	–	–	270	–	–	270
– Related deferred tax charge	–	–	–	(81)	–	–	(81)
– Current year tax credit recognised directly in equity (note 7)	–	–	–	–	521	–	521
– Deferred tax credit recognised directly in equity (note 7)	–	–	–	–	3,434	–	3,434
Equity dividends paid (note 9)	–	–	–	–	(2,723)	–	(2,723)
Dividends paid to minority interest	–	–	–	–	–	(314)	(314)
Shares issued in respect of options exercised	81	570	–	–	–	–	651
Shares issued for cash	543	17,648	–	–	–	–	18,191
At 31 December 2006	6,032	19,248	971	665	48,351	2,796	78,063

Company Statement of Changes in Equity

For the year ended 31 December 2006

	Called up, alloted and fully paid up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2005	5,270	82	971	114	26,344	32,781
Retained loss for the year	–	–	–	–	(603)	(603)
Credit in relation to IFRS2 charge for share based payments	–	–	–	88	–	88
Equity dividends paid (note 9)	–	–	–	–	(2,014)	(2,014)
Shares issued in respect of options exercised	138	948	–	–	–	1,086
At 31 December 2005	5,408	1,030	971	202	23,727	31,338
Retained profit for the year	–	–	–	–	150	150
Current year tax credit recognised directly in equity (note 7)	–	–	–	–	521	521
Deferred tax credit recognised directly in equity (note 7)	–	–	–	–	3,434	3,434
Credit in relation to IFRS2 charge for share based payments	–	–	–	54	–	54
Equity dividends paid (note 9)	–	–	–	–	(2,723)	(2,723)
Shares issued in respect of options exercised	81	570	–	–	–	651
Shares issued for cash	543	17,648	–	–	–	18,191
At 31 December 2006	6,032	19,248	971	256	25,109	51,616

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Notes	2006 £'000	2005 £'000
Cash flows from operating activities			
Operating profit		**19,864**	12,570
Adjustments for:			
Depreciation charges		**313**	188
Share-based payments		**54**	89
Loss on sale of fixed assets		**–**	1
Increase in provision for National Insurance on options		**687**	335
Increase in trade and other receivables		**(2,967)**	(14,464)
Increase in trade and other payables		**4,627**	7,671
Increase in bear positions		**1,134**	599
Increase in bull positions		**(11,348)**	(10,542)
(Increase)/decrease in tradeable loan instruments		**(20,056)**	8,461
Cash (utilised)/generated by operations		**(7,692)**	4,908
Interest paid		**(433)**	(324)
Corporation tax paid		**(1,913)**	(3,344)
Net cash (utilised)/generated by operating activities		**(10,038)**	1,240
Cash flows from investing activities			
Purchase of property, plant & equipment		**(436)**	(212)
Purchase of available-for-sale investments		**(46)**	(137)
Proceeds on disposal of available-for-sale investments		**–**	129
Interest received		**618**	402
Net cash generated from investing activities		**136**	182
Cash flows from financing activities			
Shares issued for cash		**18,191**	–
Shares issued following exercise of options		**651**	1,086
Less related National Insurance paid		**(222)**	(159)
Shares issued in subsidiary to Minority Interests		**–**	107
Dividends paid to Minority Interest		**(314)**	–
Dividends paid to Equity holders		**(2,723)**	(2,014)
Net cash generated/(utilised) by financing activities		**15,583**	(980)
Net increase in cash and cash equivalents		**5,681**	442
Cash and cash equivalents at the beginning of the year		**2,642**	2,200
Cash and cash equivalents at the end of the year	17	**8,323**	2,642

Company Cash Flow Statement

For the year ended 31 December 2006

	Notes	2006 £'000	2005 £'000
Cash flows from operating activities			
Operating loss		**(2)**	(1,032)
Adjustments for:			
Depreciation charges		**31**	27
Share-based payments		**54**	88
Increase in provision for National Insurance on options		**687**	335
Increase in trade and other receivables		**(5,803)**	(2,932)
(Decrease)/increase in trade and other payables		**(9,732)**	5,346
Cash (utilised)/generated by operations		**(14,765)**	1,832
Interest paid		**–**	–
Corporation tax paid		**(172)**	(118)
Net cash (utilised)/generated by operating activities		**(14,937)**	1,714
Cash flows from investing activities			
Purchase of property, plant & equipment		**(28)**	(15)
Purchase of available-for-sale investments		**–**	(1,200)
Interest received		**178**	237
Dividends received		**–**	–
Net cash generated/(utilised) by investing activities		**150**	(978)
Cash flows from financing activities			
Shares issued for cash		**18,191**	–
Shares issued following exercise of options		**651**	1,086
Less related National Insurance paid		**(222)**	(159)
Dividends paid		**(2,723)**	(2,014)
Net cash utilised by financing activities		**(15,897)**	(1,087)
Net increase/(decrease) in cash and cash equivalents		**1,110**	(351)
Cash and cash equivalents at the beginning of the year		**8**	359
Cash and cash equivalents at the end of the year	17	**1,118**	8

Notes to the Accounts

For the year ended 31 December 2006

1. Accounting Policies

Accounting convention

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have also been prepared in accordance with IFRS adopted for use in the European Union (EU) and therefore comply with Article 4 of the EU IAS Regulation.

General information

At the date of 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 7	Financial instruments: Disclosures; and the related amendment to IAS 1 on capital disclosures
IFRIC 4	Determining whether an Arrangement contains a Lease
IFRIC 5	Right to Interests Arising from Decommission, Restoration and Environmental Rehabilitation Funds
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of embedded derivatives
IFRIC 10	Interim reporting and impairments
IFRIC 11	IFRS 2 - Group and Treasury Share Transactions

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for additional disclosures on capital and financial instruments when the relevant standards come into effect for periods commencing on or after 1 January 2007.

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 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.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority'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.

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 from Stock Exchange transactions is determined under the principles of trade date accounting.

Notes to the Accounts continued

For the year ended 31 December 2006

1. Accounting Policies continued

Financial instruments

Financial instruments are classified as financial assets or liabilities that are acquired and are either held for trading which are designated as fair value through profit or loss at acquisition or as available-for-sale investments.

Financial instruments which are designated as fair value through profit or loss at acquisition comprise bull and bear positions in securities and 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 (adjusted for any discount based on the size and liquidity of the holding). Positions in unquoted securities are valued by the Directors at the most recent available representative arm's length price or valuation. Where no such price or valuation exists, they are valued by the Directors:

– using an appropriate model for the valuation;

– ensuring all inputs and significant assumptions used are appropriate and their reliability assessed; and

– ensuring the output from the model is reviewed for reasonableness.

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 and the marketability of the shares.

Investment in subsidiaries

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

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.

Impairment

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.

1. Accounting Policies continued

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.

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 bull positions and other holdings. These forward contracts are retranslated at the rate prevailing at the balance sheet date and any change in value is taken to the income statement.

Property, plant & equipment

Property, plant & equipment are stated at cost less 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% per annum
Motor vehicles	–	16.7% per annum

Property and operating leases

Rentals paid under operating leases are charged to profit and loss account 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.

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.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.

Notes to the Accounts continued

For the year ended 31 December 2006

1. Accounting Policies continued

Cash and cash equivalents

Cash comprises cash on hand and 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.

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. The fair value of the options granted is determined using the Black-Scholes Option Pricing Model, which take 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.

Share Option Plan

Any difference between the exercise price of share options granted under the Share Option Plan and the market value of the shares on the date of granting the options are taken to the profit and loss account. 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.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that 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.

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cashflows.

Trade and other payables

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

2. Analysis of Revenue, Profit Before Tax and Net Assets

	2006 £'000	2005 £'000
Revenue		
Equity Capital Markets	**24,780**	16,486
Asset management, principal finance and own balance sheet	**17,285**	11,158
	42,065	27,644

	2006 £'000	2005 £'000
Profit before taxation		
Equity Capital Markets	**8,312**	4,628
Asset management, principal finance and own balance sheet	**11,740**	8,022
	20,052	12,650

No material amounts of revenue or profit before tax are generated outside of the UK.

	Equity Capital Markets £'000	Asset Management Principal Finance/ own Balance Sheet £'000	Consolidated £'000
Net assets			
Assets	**44,692**	**69,893**	**114,585**
Liabilities	**(30,402)**	**(6,120)**	**(36,522)**
At 31 December 2006	**14,290**	**63,773**	**78,063**
Assets	44,553	30,673	75,226
Liabilities	(34,644)	3,394	(31,250)
At 31 December 2005	9,909	34,067	43,976

3. Operating Profit

	2006 £'000	2005 £'000
Operating profit has been arrived at after charging:		
Depreciation	**313**	188
Property lease rentals	**435**	304
Loss on disposal of fixed assets	**–**	1

	2006 £'000	2005 £'000
The analysis of auditor's remuneration is as follows:		
Fees payable to the company's auditors for:		
– the audit of the company's annual accounts	**15**	14
– other services to the group: audit of the company's subsidiaries	**55**	45
Total audit fees	**70**	59

	2006 £'000	2005 £'000
Fees payable to the company's auditors and their associates for other services to the group:		
– Tax services	**18**	15
– Other services pursuant to legislation	**-**	28
– Other services	**6**	6
Total non-audit fees	**24**	49

Notes to the Accounts continued

For the year ended 31 December 2006

4. Interest Income

	2006 £'000	2005 £'000
Bank interest	**434**	287
Other interest receivable	**186**	117
	620	404

5. Finance Costs

	2006 £'000	2005 £'000
Bank loans and overdrafts repayable within five years	**404**	323
Other interest payable	**28**	1
	432	324

6. Employees and Directors

a) Employee numbers

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

	2006 No.	2005 No.
Investment banking activities:		
Securities	**44**	43
Corporate Advisory	**11**	11
Asset Management	**21**	15
	76	69

b) The costs incurred in respect of these employees comprise

	2006 £'000	2005 £'000
Salaries and commission	**11,388**	8,611
Social security costs	**2,189**	1,065
Pension costs	**108**	78
	13,685	9,754

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 2006, the Trust held cash of £544,000 (2005: £448,000) and available for sale investments of £261,000 (2005: £215,000).

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 and may be exercised up to 10 years from the date of grant. As at 31 December 2006, there were 22,692,498 (2005: 25,826,966) options in issue under the plan representing 7.00% (2005: 8.72%) of the Group's issued share capital on a fully diluted basis.

6. Employees and Directors continued

e) Emoluments of the Directors

2006	**Gross salary £'000**	**Bonus commission and other income £'000**	**Fees £'000**	**Pension Contributions £'000**	**Benefits £'000**	**Total £'000**
H P Shore	**175**	**850**	**–**	**–**	**31**	**1,056**
G B Shore	**136**	**275**	**–**	**10**	**2**	**423**
M L van Messel	**110**	**80**	**–**	**11**	**2**	**203**
J S Paisner	**120**	**315**	**–**	**12**	**2**	**449**
Dr Z Marom	**–**	**25**	**5**	**–**	**–**	**30**
J B Douglas	**–**	**36***	**5**	**–**	**–**	**41**
	541	**1,581**	**10**	**33**	**37**	**2,202**

* £10,000 of other income relates to additional consultancy that does not form part of J B Douglas' contractual annual income.

2005	Gross salary £'000	Bonus commission and other income £'000	Fees £'000	Pension Contributions £'000	Benefits £'000	Total £'000
H P Shore	175	699	–	–	30	904
G B Shore	136	207	–	10	2	355
M L van Messel	100	60	–	10	2	172
J S Paisner *	100	143	–	10	2	255
Dr Z Marom	–	25	5	–	–	30
J B Douglas	–	23	5	–	–	28
	511	1,157	10	30	36	1,744

* appointed 11 May 2005

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
M L van Messel	842,823	15 January 2002	20.5p	Before 14 January 2012
J S Paisner	1,500,000	21 November 2002	11.0p	Before 20 November 2012

On 16 March 2006, M L van Messel exercised options over 500,000 unissued ordinary shares at an exercise price of 20.5p each and disposed of the shares issued generating a gain of £250,000 (2005: Nil). The market price on the date of exercise was 61.0p.

On 25 September 2006, J B Douglas exercised options over 276,066 unissued ordinary shares at an exercise price of 16.35p each generating a gain of £123,000 (2005: Nil). The market price on the date of exercise was 61.0p.

The closing price of the shares at 31 December 2006 was 76.5p (2005: 48.0p) and the range during the year was 48.0p to 76.5p.

Notes to the Accounts continued

For the year ended 31 December 2006

6. Employees and Directors continued

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 that are recharged throughout the group as follows:

	2006 £'000	2005 £'000
Recharged to:		
Shore Capital Markets Limited	**648**	648
Shore Capital Limited	**600**	516
Shore Capital Trading Limited	**900**	600
	2,148	1,764

At 31 December 2006 subsidiary undertakings owed a net amount of £14,624,000 (2005: £1,023,000 owed to 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;

	2006 £'000	2005 £'000
Short-term benefits	**3,128**	2,234
	3,128	2,234

7. Tax on Profit on Ordinary Activities

The tax charge comprises:

	2006 £'000	2005 £'000
Provision for United Kingdom corporation tax charge at 30% (2005: 30%)	**6,483**	3,410
Over provision in prior years	**–**	(23)
Movement in deferred tax due to timing differences	**(515)**	–
	5,968	3,387

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

	2006 £'000	2005 £'000
Profit on ordinary activities before tax	**20,052**	12,650
Tax thereon at 30%	**6,016**	3,795
Effects of:		
Expenses not deductible for tax purposes	**222**	70
Income not chargeable to tax	**(56)**	(82)
Share based payments	**(78)**	–
Depreciation in excess of capital allowances	**43**	12
Permanent tax differences	**(19)**	(494)
Other	**5**	–
Amounts taxed at lower rates	**(2)**	–
(Release)/accrue additional provision(1)	**(144)**	144
Capital losses utilised	**(19)**	(35)
Overprovision in prior years	**–**	(23)
	5,968	3,387

In addition to the tax charged to the income statement, a corporation tax credit of £521,000 (2005: Nil) relating to share based payments has been credited directly to equity.

(1) As a result of changes to tax legislation during 2005 in relation to the group's Employee Benefit Trust, provision was made for a potential tax charge that arose in the prior year. This provision is no longer required and has been released in the current financial year.

Deferred tax asset – Group

	Share based payments £'000	Timing differences £'000	Total £'000
At 1 January 2006	–	–	–
Credit to income	94	421	515
Credit to equity	3,434	–	3,434
At 31 December 2006	3,528	421	3,949

Deferred tax asset – Company

	Share based payments £'000	Timing differences £'000	Total £'000
At 1 January 2006	–	–	–
Credit to income	94	50	144
Credit to equity	3,434	–	3,434
At 31 December 2006	3,528	50	3,578

Notes to the Accounts continued

For the year ended 31 December 2006

8. Profit of Parent Company

As permitted by Section 230 of the Companies Act 1985 the profit and loss account of the parent company is not presented as part of these accounts. The parent company's profit after tax for the financial year amounted to £150,000 (2005: loss of £603,000).

9. Rates of Dividends Paid and Proposed

	2006 £'000	2005 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2005 of 0.50p per share (2004: 0.38p)	**1,352**	1,003
Interim dividend for the year ended 31 December 2006 of 0.50p per share (2005: 0.375p)	**1,371**	1,011
	2,723	2,014
Proposed final dividend for the year ended 31 December 2006 of 0.67p per share (2005: 0.50p)	**2,021**	1,352

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 IAS33 were as follows:

	2006		2005	
	Basic	**Diluted**	Basic	Diluted
Earnings (£)	**12,850,000**	**12,850,000**	8,537,000	8,537,000
Number of shares	**275,004,994**	**290,239,610**	277,794,808	277,794,808
Earnings per share	**4.67p**	**4.43p**	3.07p	3.07p

Calculation of number of shares

	2006		2005	
	Basic	**Diluted**	Basic	Diluted
Weighted average number of shares	**275,004,994**	**275,004,994**	263,484,752	263,484,752
Weighted average number of potential shares	**–**	**–**	14,310,056	14,310,056
Dilutive effect of share option schemes	**–**	**15,234,616**	–	–
	275,004,994	**290,239,610**	277,794,808	277,794,808

11. Lease Commitments

Operating leases

	2006 £'000	2005 £'000
The Group is committed to making the following lease rental payments on leasehold premises exclusive of services and rates during the next financial year.		
Leases expiring between two and five years	**323**	211
	323	211

12. Goodwill

Cost	Goodwill arising on the acquisition of Minority Interest in subsidiary £'000
At 1 January 2006	477
Additions	–
At 31 December 2006	477
Amortisation	
At 1 January 2006	96
Charge for the year	–
At 31 December 2006	96
Net Book Value	
At 31 December 2006	381
At 31 December 2005	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.

13. Property, Plant & Equipment – Group

Cost	Leasehold premises £'000	Fixtures and equipment £'000	Motor vehicles £'000	Total £'000
At 1 January 2005	289	848	138	1,275
Additions	31	181	–	212
Disposals	–	(119)	–	(119)
At 1 January 2006	320	910	138	1,368
Additions	120	316	–	436
Disposals	–	–	–	–
At 31 December 2006	440	1,226	138	1,804
Depreciation				
At 1 January 2005	147	532	26	705
Charge for the year	30	134	24	188
Disposals	–	(119)	–	(119)
At 1 January 2006	177	547	50	774
Charge for the year	53	236	24	313
Disposals	–	–	–	–
At 31 December 2006	230	783	74	1,087
Net Book Value				
At 31 December 2006	210	443	64	717
At 31 December 2005	143	363	88	594

Notes to the Accounts continued

For the year ended 31 December 2006

13. Property, Plant & Equipment continued – Company

Cost	Fixtures and equipment £'000	Motor vehicles £'000	Total £'000
At 1 January 2005	103	138	241
Additions	15	–	15
At 1 January 2006	118	138	256
Additions	28	–	28
At 31 December 2006	146	138	284
Depreciation			
At 1 January 2005	95	26	121
Charge for the year	4	23	27
At 1 January 2006	99	49	148
Charge for the year	8	23	31
At 31 December 2006	107	72	179
Net Book Value			
At 31 December 2006	39	66	105
At 31 December 2005	19	89	108

14. Available-for-Sale Investments

Available for Sale Investments held as Non Current Assets – Group

Cost	Listed investments £'000	Unlisted investments £'000	Total £'000
At 1 January 2006	–	968	968
Additions	–	46	46
Disposals	–	–	–
At 31 December 2006	–	1,014	1,014
Revaluation			
At 1 January 2006	–	288	288
Revaluation in the year	–	270	270
At 31 December 2006	–	558	558
Valuation			
At 31 December 2006	–	1,572	1,572
At 31 December 2005	–	1,256	1,256

14. Available for Sale Investments continued

Investments in Subsidiaries – Company

Cost and valuation	Shares in subsidiary undertakings £'000
At 1 January and 31 December 2006	33,685

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	2	England and Wales	Intermediate Holding Co.	79%
Shore Capital Stockbrokers Limited	3	England and Wales	Broker/dealer	79%
Shore Capital and Corporate Limited	3	England and Wales	Corporate advisers	79%
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 Trading Limited		England and Wales	Trader of securities	100%
Shore Capital International Limited		England and Wales	Advisory services	100%
Puma Property Advisors Limited		Guernsey	Property advisory services	100%
JellyWorks Limited		England and Wales	Dormant	100%
Nominee Company				
Puma Nominees Limited		England and Wales	Nominee company	100%

2 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% 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.

3 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 2 above).

15. Bull positions and other holdings

	Group 2006 £'000	**Company 2006 £'000**	Group 2005 £'000	Company 2005 £'000
Listed holdings at market value:				
Equities	**8,796**	**–**	10,735	–
Debt instruments	**20,006**	**–**	–	–
Unlisted holdings:				
Invested in own funds and products	**30,499**	**–**	18,074	–
Other (including hedge funds)	**3,493**	**–**	2,581	–
	62,794	**–**	31,390	–

Notes to the Accounts continued

For the year ended 31 December 2006

16. Trade and Other Receivables

	Group 2006 £'000	**Company 2006 £'000**	Group 2005 £'000	Company 2005 £'000
Trade debtors	**29,926**	**–**	30,451	–
Other debtors	**4,729**	**63**	2,002	7
UK corporation tax	**–**	**1,031**	–	192
Prepayments and accrued income	**2,185**	**27**	1,418	21
	36,840	**1,121**	33,871	220

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

17. Cash and Cash Equivalents

Group

Cash at bank and in hand of £8,332,000 (2005: £7,734,000) includes £544,000 (2005: £448,000) held in the Shore Capital Group Employee Benefit Trust.

Analysis of Changes in Net Funds – Group

	As at 1 January 2006 £'000	**Cashflows £'000**	**As at 31 December 2006 £'000**
Cash at bank and in hand	7,734	598	8,332
Overdraft	(5,092)	5,083	(9)
	2,642	5,681	8,323

Analysis of Changes in Net Funds – Company

	As at 1 January 2006 £'000	**Cashflows £'000**	**As at 31 December 2006 £'000**
Cash at bank and in hand	71	1,047	1,118
Overdraft	(63)	63	–
	8	1,110	1,118

18. Trade and Other Payables

	Group 2006 £'000	**Company 2006 £'000**	Group 2005 £'000	Company 2005 £'000
Trade creditors	**16,614**	**–**	15,671	–
Other creditors	**3,606**	**2,529**	461	65
Other taxation and social security	**423**	**25**	616	343
Accruals and deferred income	**5,448**	**137**	4,635	2,035
	26,091	**2,691**	21,383	2,443

19. Provision for Liabilities and Charges

Group and Company:

Provision for National Insurance contributions on share options

	2006 £'000	2005 £'000
At 1 January	**1,017**	841
Add: charge for the year	**687**	335
Less: payments made in the year	**(222)**	(159)
At 31 December	**1,482**	1,017

20. Capital Commitments

As at 31 December 2006 the Group had no capital commitments (2005: Nil).

21. Called Up Share Capital

	2006 £'000	2005 £'000
Authorised:		
625,000,000 ordinary shares of 2p each	**12,500**	12,500

Allotted, called up and fully paid:	2006 Number of shares	2005 Number of shares	2006 £'000	2005 £'000
At 1 January	**270,389,377**	263,484,752	**5,408**	5,270
Shares issued in respect of options exercised	**4,061,298**	6,904,625	**81**	138
Shares issued for cash	**27,150,794**	–	**543**	–
At 31 December	**301,601,469**	270,389,377	**6,032**	5,408

During the year to 31 December 2006, 4,061,298 (2005: 6,904,625) ordinary shares of 2p each 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.

On 5 December, 2006, 27,150,794 ordinary shares of 2p each were issued at 67p each in order to increase the working capital available to the group.

22. Financial Instruments

The Group's financial instruments comprise, for the purpose of IAS32, cash and liquid resources, trade receivables and payables arising from operations together with bull and bear positions in equities. The main risks arising from the Group's financial instruments are market risk, currency risk, interest rate risk and credit risk. The Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

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

	2006 £'000	2005 £'000
Equities	**6,994**	6,099
Debt instruments	**360**	396
Alternative assets	**10,783**	6,703
	18,137	13,198

Notes to the Accounts continued

For the year ended 31 December 2006

22. Financial Instruments continued

a) Market Risk

The Group is exposed to market risk in respect of its trading in equities. The Group carries out a market-making activity primarily in small company stocks. It also undertakes principal dealing. The fair value at the year end of positions arising from these activities is disclosed in the Financial Statements in Note 15 for bull positions and in the consolidated balance sheet for bear positions.

Through a combination of seeding new Funds that have been launched, and increases in the market value of trading positions and holdings, the Group has materially increased the level of bull positions held in the principal trading activity. The year end positions arising from market making activities have not materially increased during the year. 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.

b) Currency Risk

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 bull positions and other holdings that were denominated in foreign currencies was:

	2006 **£'000**	2005 £'000
Held in United States dollars	**10,409**	8,952
Held in Euros	**1,155**	–
	11,564	8,952

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 retranslated at the rate prevailing at the balance sheet date and any change in value is taken to the Income Statement. The amount taken to the Income Statement during the year was a credit of £1,002,000 (2005: charge of £544,000). As at the year end the balance sheet value of forward contracts that were hedging bull positions and other holdings was £10,081,000 (2005: £9,231,000). There were no unhedged forward contracts at the current or prior year ends.

c) Interest Rate Risk

The Group does not have any long-term fixed borrowings and therefore is not exposed to any fixed interest rates.

The interest bearing financial assets and liabilities of the Group comprise cash and cash equivalents and bank overdrafts 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 £20m overdraft facility renewable annually.

d) Credit Risk

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

The credit risk on cash and cash equivalents is limited as the counterparties are all internationally recognised banks and financial institutions.

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

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at the offices of Howard Kennedy, 19 Cavendish Square, London W1A 2AW on 27 April 2007 at 3.30 p.m. for the following purposes:

Ordinary Business

1 To approve and adopt the Accounts for the year ended 31 December 2006, together with the reports of the Directors and Auditors thereon.

2 To re-elect Howard Shore as a director who retires by rotation pursuant to article 90 of the Company's Articles of Association and, being eligible, offers himself for re-election.

3 To re-elect Graham Shore as a director who retires by rotation pursuant to article 90 of the Company's Articles of Association and, being eligible, offers himself for re-election.

4 To declare a final dividend of 0.67p per ordinary share of 2p each in the capital of the Company ("Ordinary Share") payable to shareholders on the register at close of business on 9 March 2007.

5 To re-appoint Deloitte & Touche LLP as Auditors of the Company and to authorise the Directors to determine their remuneration.

6 To approve the policy set out in the Remuneration Report on pages 15 to 16 in the Annual Report and Accounts 2006.

Special Business

To consider and, if thought fit, pass the following resolutions, of which resolutions 7 and 8 will be proposed as ordinary resolutions and resolutions 9 and 10 will be proposed as special resolutions:

7 That, in substitution for all authorities granted to the Directors in respect of the allotment of relevant securities but without prejudice to the prior exercise of such authorities, the Directors be generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of Section 80(2) of the Act) up to an aggregate nominal amount of £2,500,000 provided that such authority shall expire fifteen months from the date of this resolution or at the conclusion of the next annual general meeting of the Company, whichever is earlier, save that the Company may, before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred by this resolution had not expired.

8 That, in accordance with Sections 347C and 347D of the Act, the Company and/or each of its subsidiaries Shore Capital and Corporate Limited and Shore Capital Stockbrokers Limited and Shore Capital Limited be authorised to make donations to EU political organisations and to incur EU political expenditure not exceeding in aggregate for all the companies 50,000 pounds sterling (as such terms are defined in Section 347A of the Act) during the period beginning with the date of the passing of this resolution and ending fifteen months from the date of this resolution or at the conclusion of the next Annual General Meeting of the Company, whichever is earlier.

9 That, subject to the passing of resolution 7, the Directors be empowered pursuant to Section 95 of the Act to allot equity securities (within the meaning of Section 94(2) of the Act) for cash pursuant to the authority conferred by resolution 7 as if sub-section (1) of Section 89 of the Act did not apply to any such allotment (such authority to be in substitution for all existing authorities granted to the Directors in respect of the allotment of equity securities as if section 89(1) of the Act did not apply but without prejudice to the prior exercise of such authorities) provided that this power shall be limited to the allotment of equity securities:

Notice of Annual General Meeting continued

(a) in connection with an offer of such securities by way of rights to holders of Ordinary Shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange; and

(b) otherwise than pursuant to sub-paragraph (a) above up to an aggregate nominal amount of £604,195.62;

and shall expire fifteen months from the date of this resolution or at the conclusion of the next Annual General Meeting of the Company, whichever is earlier, save that the Company may, before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred by this resolution had not expired.

10 That the Company be and is hereby generally and unconditionally authorised for the purposes of section 166 of the Act to make one or more market purchases (within the meaning of section 163(3) of the Act) of Ordinary Shares in such manner and on such terms as the Directors may from time to time determine provided that:

(a) the maximum aggregate number of Ordinary Shares hereby authorised to be purchased is 45,284,461;

(b) the minimum price which may be paid for each Ordinary Share is 2p per share (exclusive of expenses and appropriate taxes) or if each Ordinary Share has a nominal value other than 2p, that nominal value;

(c) the maximum price (exclusive of expenses and appropriate taxes) which may be paid for an Ordinary Share shall not be more than 5 per cent above the average of the middle market quotations for an Ordinary Share as derived from the Stock Exchange Daily Official List for the five business days immediately preceding the date on which the Ordinary Share is purchased;

(d) unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the next annual general meeting of the Company or fifteen months from the date of this resolution, whichever is earlier; and

(e) the Company may make a contract or contracts to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts.

BY ORDER OF THE BOARD

Jonathan Paisner
Company Secretary

Dated: 26 March 2007

Registered Office:
Bond Street House
14 Clifford Street
London W1S 4JU

Notes:

1 A member who is entitled to attend and vote at this Meeting may appoint one or more proxies to attend and, on a poll, vote on his/her behalf. Such a proxy need not be a member of the Company.

2 To be valid, a Form of Proxy must be lodged with the Company's Registrars, Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol, BS99 7NH at least 48 hours before the Meeting. A Form of Proxy for use by shareholders is enclosed with this Report on page 47. Completion of the Form of Proxy will not prevent a shareholder from attending the Meeting and voting in person.

3 The Register of Directors' Interests, together with the Directors' service agreements, and a copy of the Company's Articles of Association will be available for inspection during usual business hours on any weekday (Saturdays and Public Holidays excluded) at the registered office of the Company until the date of the Annual General Meeting and at the place of the Meeting for 15 minutes prior to and until the termination of the Meeting.

4 Resolution 2–3: Information about the Directors who are proposed by the Board for re-election at the Meeting is shown on page 10 of the Annual Report and Accounts 2006.

5 In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the Company's register of members not later than 48 hours before the time of the Meeting or, if the Meeting is adjourned, shareholders entered on the Company's register of members not later than 48 hours before the time fixed for the adjourned Meeting shall be entitled to attend and vote at the Meeting.

Explanation of Special Business

Explanation of Resolutions 7, 9 and 10 to be proposed at the Annual General Meeting

On page 43 of the Report is the notice of Annual General Meeting which will be held on 27 April 2007. Set out below is a brief explanation of the resolutions comprising special business to be proposed at the Annual General Meeting.

Resolution 7

Resolution 7, which will be proposed as an ordinary resolution, would give the Directors authority to allot shares up to a maximum nominal amount of £2,500,000, (125,000,000 Ordinary Shares). After allowing for the Ordinary Shares reserved for the exercise of options, this authority would cover Ordinary Shares representing approximately 35% of the Company's current issued share capital. This authority would expire on the date of the 2008 Annual General Meeting or 26 July 2008, whichever is the earlier. The Directors have no present intention of exercising this authority.

Resolution 9

Resolution 9 will be proposed as a special resolution and would give the Directors the authority to allot shares for cash as though the rights of pre-emption conferred by section 89 (1) of the Companies Act 1985 did not apply:

a) in connection with a rights issue to existing shareholders (to allow the Directors to take action to overcome certain practical difficulties which could arise in that scenario), and

b) up to a nominal amount of £604,195.62 (30,209,781 Ordinary Shares), being 10% of the current issued share capital of the Company (to give the Directors some flexibility in financing business opportunities as they arise).

This authority would expire on the date of the 2008 Annual General Meeting or 26 July 2008, whichever is the earlier. The Directors have no present intention of exercising this authority.

Resolution 10

In certain circumstances it may be advantageous for the Company to purchase its own shares. Resolution 10, which will be proposed as a special resolution, would give the Board authority from shareholders to do so. Such authority will expire on the date of the 2008 Annual General Meeting or 26 July 2008, whichever is the earlier. The Directors intend to exercise this power only if and when, in the light of market conditions prevailing at the time, they believe that the effect of such purchases would be in the best interests of the Company and shareholders generally. Any shares purchased in this way will be cancelled (in which case the number of shares in issue will be accordingly reduced) or held by the Company as treasury shares.

This resolution specifies the maximum number of shares which may be acquired (being 14.99% of the Company's issued share capital as at 26 March 2007 of 302,097,810 Ordinary Shares) and the maximum and minimum prices at which they may be bought.

Currently 22,196,157 Ordinary Shares are reserved for the exercise of options granted under the Company's Share Option Plan which equates to 7.35 per cent. of the Company's issued share capital. This percentage would increase to 8.64 per cent. if the authority to purchase the Company's own shares is exercised in full.

Form of Proxy

For use at the Annual General Meeting convened for 27 April 2007 at 3.30 p.m. at the offices of Howard Kennedy, 19 Cavendish Square, London, W1A 2AW.

I/We ______________________________

(BLOCK CAPITALS PLEASE)

of ______________________________

being (a) member(s) of the Company hereby appoint the Chairman of the Meeting (see Note 1) or

____

as my/our proxy and to attend and vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 27 April 2007 and at any adjournment thereof. My/our proxy is to vote as indicated below in respect of the Resolutions set out in the Notice of Annual General Meeting (see Note 2).

Ordinary Resolutions

		FOR	AGAINST
1	To approve and adopt the Report and Accounts		
2	To re-elect Howard Shore		
3	To re-elect Graham Shore		
4	To declare a dividend		
5	To re-appoint Deloitte & Touche as auditors and to authorise the Directors to determine their remuneration		
6	To approve the policy set out in the Remuneration Report		
7	Authority under section 80 of the Companies Act 1985 for the Directors to allot relevant securities		
8	Authority to make political donations		

Special Resolutions

		FOR	AGAINST
9	Authority under section 95 of the Companies Act 1985 for the Directors to disapply pre-emption rights in relation to the allotment of equity securities for cash		
10	Authority to buy-back shares		

Dated ______________________________

Signed or sealed (see Note 3)

____

Notes:

1 If a member wishes to appoint as a proxy a person other than the Chairman of the Meeting, the name of the other person should be inserted in block capitals in the space provided. A proxy need not be a member of the Company but must attend the Meeting in person. Any alteration or deletion must be signed or initialled.

2 A member should indicate by marking the box headed either FOR or AGAINST with an 'X' to show how he wishes his vote to be cast in respect of each of the resolutions set out in the Notice of Annual General Meeting. Unless so instructed, the proxy will vote or abstain as he thinks fit. The proxy will act at his discretion in relation to any other business arising at the Meeting (including any resolution to amend a resolution or to adjourn the Meeting).

3 In the case of a corporation this form of proxy should be given under its seal or signed on its behalf by an attorney or duly authorised officer. In the case of joint holders the form of proxy should be signed by the senior holder and the names of all joint holders should be shown.

4 Use of this form of proxy does not preclude a member from attending the Meeting and voting in person.

5 To be valid, this form of proxy must be lodged together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, at the Company's Registrars, Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol, BS99 7NH, not less than 48 hours before the Meeting or any adjournment thereof or, in the case of a poll, not less than 48 hours before the time appointed for taking the poll.

THIRD FOLD AND TUCK IN

BUSINESS REPLY SERVICE
Licence No.SWB1002

2

Computershare Investor Services PLC
PO Box 1075
The Pavilions
Bridgwater Road
Bristol
BS99 3ZZ

SECOND FOLD

FIRST FOLD

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