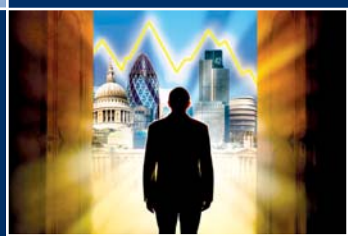
# REPORT & ACCOUNTS 2007



SHORE CAPITAL GROUP PLC

# Contents

# Highlights

**Financial Summary for the year ended 31 December 2007**

| Twelve months ended 31st December | **2007 £m** | 2006 £m | 2005 £m |
|---|---|---|---|
| Revenue | **38.8** | 42.1 | 27.6 |
| Profit before tax | **14.3** | 20.1 | 12.7 |
| Earnings per share (pence) | **2.91** | 4.67 | 3.07 |
| Annual dividend per share (pence) | **0.875** | 1.17 | 0.875 |

- Underlying business demonstrating resilience in challenging markets;
- Growth offset by reduction in carrying (marked to market) values, principally at Dawnay Shore Hotels and Puma Brandenburg;
- Equity Capital Markets division revenue up 20%, driven by secondary business and research;
- Funds under management grew by 54 per cent to over $3 billion at the end of December 2007;
- Guaranteed and growing income stream for DSH following 45 year lease to Barceló;
- Launching Puma European Opportunities Fund in 2008 to invest in opportunities arising from the credit crunch. Lehman Brothers have pre committed $50m, Lord Sterling to chair advisory board;
- Further capitalising on opportunities arising from illiquid financial markets through St Peter Port Capital and Puma “Credit Crunch” VCTs;
- Strong balance sheet: cash and commercial paper of £36m (£44m at 29th February 2008) provide flexibility.

# Corporate Profile

**Shore Capital is a UK 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. Shore Capital International provides 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, Berlin and Frankfurt we undertake a broad range of investment banking services, including:

### Equity capital markets

- specialist sales to, and research for, institutions in selected sectors;
- corporate finance advice, including fund-raising, sponsorship on the London Stock Exchange, acting as nomad on AIM, takeovers and mergers;
- smaller company market-making. Shore Capital makes markets in over 1,270 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, principally through an open ended fund of funds;
- specialist equity long/short hedge fund, Puma Sphera;
- structured vehicle investing in UK hotel property;
- innovative venture capital trusts ("VCTs") providing mezzanine capital to solid companies;
- advisory and discretionary fund management for high net worth individuals and entrepreneurs, based on model portfolios in both equities and funds, designed either for income or for growth;
- aggregate funds under management are currently approximately £1.45 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 and institutional community for offering a pro-active and responsive service.

### Our Services – an overview

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

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

**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 and information technology software and hardware;
- secure and efficient settlement and custody arrangements through Pershing Securities, part of the Bank of New York Mellon Corporation group;
- highly competitive and client-orientated market-making in a broad range of smaller UK companies, listed on either the Official List or AIM. In all we currently cover over 1,250 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

**Commercial Property and Hotels**

- commercial property fund raised in 2002 to invest £125m in UK property. Last properties sold in 2006 and fund has been fully realised. Delivered IRR of 39 percent p.a;
- established Dawnay Shore Hotels in 2004, a specialist vehicle to acquire portfolios of UK regional hotels. Now owns 20 major hotel properties, which have been let on a long term lease to Barceló, the leading Spanish hotel operator. Portfolio valued at £531m:
- launched Puma Brandenburg in 2006 to buy commercial, residential and mixed use property in Germany. Accumulated a €700m portfolio; expected to total €1.2bn when fully invested;
- launching new fund to take advantage of real estate opportunities arising from the credit crunch.

**Growth capital – Puma II and Puma VCTs**

- specialist fund, Puma II, dedicated to development capital opportunities, both pre-IPO and quoted securities;
- Five Puma VCTs established in 2005, 2006 and 2008 with approximately £65m 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.

**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 8.0% p.a. since inception to 31 December 2007 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 December 2006, specialist equity long/short fund. (IRR of 21.7% p.a. to 31 December 2007).

**Shore Capital International**

We have offices in Berlin and Frankfurt 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 offices to offer access to the London capital markets to German and other Continental European countries.

**Principal Finance and Mezzanine Loans**

We use our balance sheet to seed funds we are launching. We also arrange and provide mezzanine loans. Notable principal investments have included capital for Orchid Developments, which we backed at an early stage and whose growth we have assisted in a variety of ways.

# Chairman's Statement

**The diversity of the Group's income streams and in particular the continued growth of asset management income and secondary commission mitigate the more testing environment for other parts of the business. With our strong balance sheet and liquidity, we are seeking to take advantage of these challenging market conditions, whilst preserving our cautious approach.**

## Introduction

I am pleased to be able to report another year of progress in our operating businesses in both revenue and profitability, offset by a reduction in the carrying value of some balance sheet holdings at the end of the year. Our equity capital markets business ("ECM") performed well, growing its revenue by 20 per cent with a particularly strong contribution from secondary and research commission.

Funds under management increased by over 50 per cent during 2007, benefiting from the greater deployment by Puma Brandenburg as well as the launches of Puma Sphera in December 2006 and St Peter Port Capital in May 2007. As a result, asset management income grew strongly during 2007. However, excluding interest, balance sheet income was flat on a net basis, largely because of the weak share price of Puma Brandenburg and an up-to-date revaluation of Dawnay Shore Hotels, both of which affected the second half. We do not believe that these adjustments reflect the medium to long term prospects of these two vehicles.

## Financial Review and Key Performance Indicators

Revenue for the year was £38.8m (2006: £42.1m), a decrease of 7.8 per cent. Administrative expenses grew 12.5 per cent, reflecting the increased share of revenue and associated costs from the operational areas of the business. As a result the Group achieved an operating profit of £13.8m (2006: £19.9m), a decrease of 30.7 per cent.

Interest income was £1,187,000 (2006: £620,000), the increase reflecting cash generated and Shore Capital's fund-raising in late 2006. Finance costs rose to £765,000 (2006: £432,000), reflecting higher interest rates compared to 2006 and a new loan facility in the year (see below). The net effect of these changes was to give a contribution from net investment income and finance costs of £422,000 (2006: £188,000). Profit before tax was £14.3m (2006: £20.1m). This generated earnings per share of 2.91p (2006: 4.67p), a decrease of 37.7 per cent, which also reflects the fact that there are an extra 11 per cent of shares in issue resulting from the fund-raising in late 2006.

Of salary costs, over 50 per cent were variable with revenue and it is not our policy to offer guaranteed bonuses. In addition, settlement costs in ECM are also activity related.

### Liquidity

At the beginning of July we finalised and drew down a medium term evergreen bank facility of £10m with a minimum initial term of 3 years and a minimum 2 year notice period throughout its life. As at the balance sheet date we held approximately £36m, comprising cash and commercial paper. At the end of February 2008 this was £44m. This demonstrates the Group's flexibility to undertake a range of transactions as opportunities arise in the near term.

### Share buybacks

As at the year end, the Group had bought back 2.97 million shares for a total cost of £1,195,000. This has since increased to 7.72m shares for a total cost of £2,964,000.

### Balance Sheet

Our balance sheet continues to grow from internally generated resources. Total equity at the year end was £82.3m (2006: £78.1m), of which £16m was held in cash, £20m in commercial paper, £7m net was held in quoted equities and a further £31m in the various Puma Funds and liquid hedge funds. The balance of £8m comprised mainly net market debtors.

### Return on Capital Employed

Return before tax on total capital employed was 18.3 per cent for the year (2006: 44.3 percent). This reflects the increase in balance sheet size resulting from the placing in December 2006 as well as the lower level of profitability in 2007.

### Dividend

Although results for the year have decreased, earnings per share are similar to those generated in 2005 and we therefore propose an overall dividend for the year in line with that paid for 2005. This represents a final dividend of 0.325p per share, making 0.875p per share in respect of 2007 as a whole (2006: 1.17p), a distribution of approximately 30 per cent (2006: 26 per cent) of profits after tax and minority interests. The dividend is expected to be paid on Wednesday, 21st May 2008 to shareholders on the register as at 4th April 2008.

# Operating Review

The following operating review reports on our two main areas of focus, namely equity capital markets and alternative assets/principal finance.

## Equity Capital Markets

### Overview

In equity capital markets, we provide research in selected sectors, broking for institutional and professional clients, market-making in AIM and small cap stocks and corporate finance for mid and small cap companies. Each of these three elements of the business performed well during 2007, with a particularly strong showing from institutional secondary stockbroking.

### Research and Sales

We are delighted to report that institutional sales and research activity achieved continued strong growth in revenue from secondary business, at the same time as supporting an active primary placing business. It is particularly pleasing to see that the quality of our research is recognised by leading institutions, reflected in a significant and growing proportion of the income from commission awarded directly for research as a result of internal votes within the relevant fund manager. Consequently, we believe we have been a net beneficiary of unbundling.

We have continued to expand our sales team to capitalise on the quality of our research product and order flow, and the growth in secondary commission reflects this. Our team focuses on selected sectors of expertise: consumer related industries, technology, financial services, property and construction, to which we added oil and gas during the period.

### Market-making

Market-making performed well, benefiting from the expanding number of stocks on AIM and the broad range of electronic links we have installed to enable us to deal directly with major retail brokers as a Retail Service Provider.

We currently cover some 1,270 stocks and maintain strong relationships with the major retail houses which are our main customers. 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.

As the year progressed, the market for small stocks became progressively more difficult, but our market-makers remained profitable in each month of the year with volume holding up well.

Statistics from the London Stock Exchange show that by number of stocks covered we continue to be the second largest market-maker on AIM and the third largest on the London Stock Exchange as a whole.

### Corporate Finance

During the year we continued to win new clients, notably a new JP Morgan fund where we acted as nomad and broker, and RGI, one of the largest stocks on AIM (market cap of approx $1.1bn) where we have been appointed nomad, having acted previously as co-manager to Morgan Stanley who were book runner on the flotation and secondary fund raising. Our client Phaunos Timber completed its two-stage fund raising in 2007 giving it a market capitalisation of over $500m. Other high profile advisory roles in the year include the successful agreed takeover of Dobbies by Tesco, acting as broker to Blackstone on its bid for La Tasca and for Birmingham City as rule 3 adviser.

We continue to grow our client list and now have a retainer base of 55 public companies, and we raised over £450m in equity for companies in the period. As a result, retainers showed good growth whilst transaction fees were lower than in 2006 when there was an exceptionally buoyant market for new issues.

As was the case with market making, by the end of 2007 difficult stock market conditions made an impact on corporate finance activity, particularly new issues. Nonetheless, the team succeeded in closing transactions and have the flexibility and creativity to get deals done in a tough market.

## Alternative Assets and Investment Management

### Overview

Our alternative asset class fund management business had another strong year, with continued product portfolio expansion and additional deployment of cash.

In May we raised £75m for a new pre-IPO fund, St Peter Port Capital, which is managed by a new fund management company in which we have a 50 per cent interest. We also saw the first meaningful period of results for Puma Sphera, a new hedge fund which began trading in December 2006 and in which we are also a joint venture partner: its performance in 2007 was outstanding at 22.1 per cent. Puma Brandenburg continued to invest in new property and as the management fees for the fund are based on the value of properties under management, it is therefore making an increasing contribution to our results. Our other products also continued to contribute during the period, and this is detailed below. Puma II came to the end of its seven year life in December 2006 and a large proportion of its assets were returned to investors during 2007.

# Operating Review continued

Perhaps the most significant development for this division was in our hotel vehicle. On 24 August 2007, Dawnay Shore Hotels plc ("DSH"), announced the successful outcome of its strategic review and that it was leasing its hotels to Barceló, a leading international hospitality group. We give further details of this transaction below, and discuss its medium term potential.

As described below, our plans for 2008 include the launch of Puma European Opportunities Fund, for which we plan to raise $500m. In addition, we are also raising two new "credit crunch" VCTs which will provide financing to growing, cash generative, small and medium enterprises which cannot raise sufficient finance in the current market.

The table below summarises the performance of the various funds we run, both absolute and relative return, for the year 2007 where applicable and since inception. In the case of Dawnay Shore Hotels, this is shown to the date of the new external property valuation conducted for inclusion in DSH's own annual results.

## Funds Under Management

Funds under management as at 31 December 2007 were £1.51 billion ($3.0 billion), a 54 per cent increase on the £979m ($1.92 billion) at 31 December 2006. These figures take account of the return of cash to investors in Puma II and the launches of new products as well as strong fund performance.

## Puma Brandenburg

Puma Brandenburg Limited ("PBL"), which invests in German real estate, was established in March 2006 and is advised by a subsidiary of Shore Capital, Puma Property Advisors Limited ("PPAL").

PBL holds euro assets and reports its results in euros. On this basis, it reported that the value of its portfolio in its interim report (as at 30 September 2007) was €1.57/ share, which equates to £1.20/ share at current exchange rates. The company's strategy focuses on active management and capital appreciation through rising rents, rather than simply relying on yield compression. PBL reported that it had been successful in improving income by letting vacant

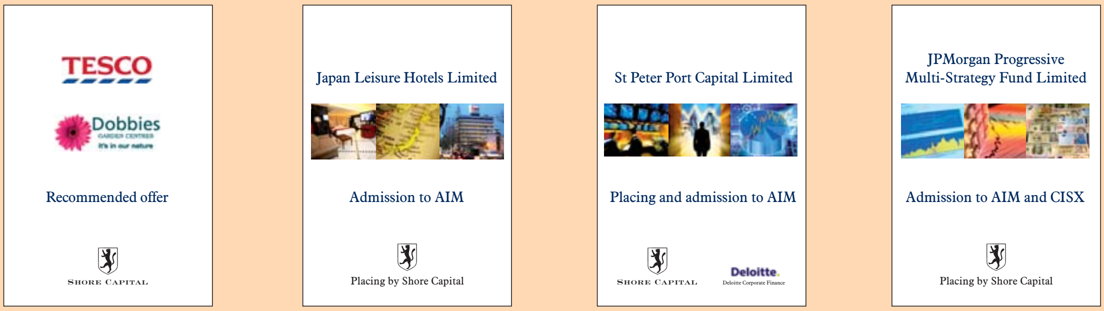
**Returns from Absolute Return and Model Portfolio Products**
**Performance in 2007 and since Inception (net of management and performance fees)**

| Absolute Return Products | Inception Date | Asset type | Performance in 2007 % | IRR to Date % p.a. |
|---|---|---|---|---|
| Puma Absolute Return Fund | May 2003 | Fund of Hedge funds | **2.0** | **8.0** |
| Puma VCTs I and II[(1)] | Apr/May 2005 | VCT | **(2.9)** | **3.3/23.9** pre/post tax |
| Puma VCTs III and IV[(1)] | Apr/May 2006 | VCT | **(3.9)** | **(0.8)/30.6** pre/post tax |
| Puma II | Dec 1999 | Growth capital | Largely realised | **6.7** |
| Puma Sphera | Dec 2006 | Equity long/short | **22.1** | **21.7** |
| Puma Property | July 2002 | UK commercial property | Fully realised | **39.2** |
| Dawnay Shore Hotels[(2)] | July 2004 | Hotels | **(13.9)** | **36.2** |
| Puma Brandenburg[(3)] | March 2006 | German Residential Property | **24.2** | **11.1** |
| St Peter Port Capital[(3)] | April 2007 | Growth Capital | **0.0** | **0.0** |

[(1)] Weighted composite of VCTs [(2)] Estimated using new valuation of properties [(3)] Based on published Net Asset Values

| Model Portfolios | Inception Date | Asset type | Performance in 2007 % | IRR to Date % p.a. |
|---|---|---|---|---|
| Growth Portfolio | Feb 2002 | Equities, bonds and unit trusts | **4.1** | **6.7** |
| Balanced Portfolio | Feb 2002 | Equities, bonds and unit trusts | **8.6** | **8.9** |
| Multi-manager Growth Portfolio | July 2003 | Unit trusts | **5.3** | **17.6** |
| Multi-manager Income Portfolio | July 2004 | Unit trusts | **(1.1)** | **12.3** |
| AIM Inheritance Tax | July 2005 | Equities | **(0.4)** | **14.0** |

| 11 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** | **25.3** |




*Some of the transactions completed by our corporate finance team during 2007.*

space and achieving rental increases in a substantial number of cases.

As at 31 December 2007, PBL had acquired a mixed portfolio valued at approximately €700m, comprising some 425,000 sqm of residential, office and retail space, located in Berlin, Frankfurt and variously throughout Germany, mostly in the West. Acquisitions in 2007 include a mixed portfolio of assets (comprising the freehold of the 5-star Hyatt hotel in Cologne and further office, residential and shopping centres located in Nuremberg, Zweibruecken and Mulheim), and 45 edge of town retail units let to Lidl, the discount retailer.

PBL has assembled a portfolio of good quality assets at attractive prices, but retains considerable capacity (in the region of €600m including leverage) for further purchases. The market turbulence gives PBL, which has strong relationships with banks, a strong competitive advantage in today's markets where fewer people are able to secure financing.

## Dawnay Shore Hotels

As mentioned above, DSH's strategic review was successfully concluded with the leasing of its hotels to Barceló Group. The leases place full repairing and insuring obligations on the tenant and provides guaranteed rental growth over the first four years which is inflation-indexed thereafter and can also increase if hotel EBITDA performs well.

The effect is to increase DSH's net cashflow before interest in the first year of the leases because DSH will no longer bear the overhead costs of the Paramount Group nor (other than an agreed contribution) need to fund maintenance expenditures. Cashflow will grow further in subsequent years according to the leases' formula and is supported by Barceló's strong covenant rather than being dependent on the potential cyclicality of the hotel business.

DSH's portfolio (excluding land held for non-hotel development) was recently professionally re-valued at £527m. This valuation is on the basis of their current room capacity. This new valuation has been reflected in our 2007 results and is a reduction of £29m from the valuation in August 2007, given immediately after the leases were granted.

In the past DSH has successfully exploited the potential for gains in value through developing the portfolio by adding extra rooms and conference facilities. We expect this programme to continue: at present, it has detailed plans for approximately 800 rooms (over 20 per cent of the current estate) of which 363 rooms have already received planning consent. There are also schemes for 2,500 sq.m of additional meeting rooms and upgrades for several leisure clubs. The lease agreement provides a formula for these improvements to be added to DSH's rental income. The economics of adding these rooms is highly attractive. The value of the development potential of the portfolio is not typically fully recognised in a professional valuation and we therefore believe that fulfilling the programme will add significantly to net asset value. We also believe that the inflation-indexation in the leases will give rise to significant extra value once the credit markets improve.

## Puma Absolute Return Fund ("PARF")

PARF had a disappointing year, returning 2 per cent for sterling investors. The difficult summer was a tough period for PARF despite having no direct exposure to CDO-related funds. An unexpectedly poor performance from statistical arbitrage funds in the portfolio led to a disappointing drop in August. Nevertheless, the diversity of funds and specialist nature of most of our fund managers protected us from a larger decline. PARF's total return since inception (May 2003) in sterling terms is 43 per cent, an IRR of 8 per cent, achieved with relatively low volatility.

# Operating Review continued

### Puma Sphera
Puma Sphera's performance in 2007 was outstanding, gaining 22.1 per cent, having contained the loss in August to 2.8 per cent. The fund was launched in December 2006 and draws on the long established and proven expertise of Sphera Fund Management (which manages about $190m of local institutional and private investors' capital) and has made this available to international investors for the first time.

This open-ended fund began investing with $28m (including $5m of our own capital and $5m from our Israeli partners) which has since more than doubled to $58m. We hope for rapid growth in the fund's size if its performance remains strong.

### Private Client Investment Management
Shore Capital's track record for private client investment management remains strong. Our balanced portfolio has outperformed its benchmark by 13.1 per cent from launch in February 2002 to 31 December 2007 and gained 8.6 per cent in 2007. Over the same 72 months to 31 December 2007 the growth portfolio also outperformed its benchmark by 19.1 per cent and gained 4.1 per cent in absolute terms in 2007.

Our "long only" range of products based on picking "best of breed" long only funds continued to do well. The growth orientated fund of funds has achieved 107.5 per cent growth since launch at 30 June 2003 to 31 December 2007 and out-performed its benchmark by 24.5 per cent. The newer income-orientated fund of funds has achieved 50.1 per cent since launch at 30 June 2004 to 31 December 2007 and out-performed its benchmark by 6.9 per cent.

### Puma Venture Capital Trusts
In 2008 we are launching two new Puma VCTs targeting the investment opportunities arising from the credit crunch. The new funds, which offer investors a 30 per cent income tax relief and tax free returns, will provide secured loans to well-run companies finding it hard to raise finance on attractive terms from banks hit hard by the current credit turmoil. The intention is to provide mezzanine and senior debt to well-run companies, both as qualifying investments and as part of the non-qualifying portfolio, in structures seeking to limit down-side risk. These new VCTs will add to the existing pool of £60m in the VCTs launched in 2004/5 and 2005/6. They have provided an average post tax return since launch of 25 per cent p.a. since launch. This has been achieved by focussing on qualifying investments with a lower risk profile and secured finance of the type targeted by the new VCTs.

### Puma II
Puma II, our Growth Capital Fund, reached the end of its seven year life in December 2006 and the process of winding it up is nearly complete. A large proportion of the assets have now been turned into cash which has been distributed to investors and we are now focused on realising the remaining investments to enable a final liquidation.

### St Peter Port Capital
St Peter Port Capital ("St Peter Port") was launched in April 2007 with £75m from institutional and high net worth investors. The new fund's mandate is to invest in companies which the managers consider have a realistic prospect of achieving an initial public offering ("IPO") or other exit event (such as a trade sale) within a year of the investment being made. Shore Capital and Broughton Investments Group Limited (our partner in the venture) have formed a new 50:50 investment management company to manage the fund's investments and Shore Capital committed £5m to the fund on the same terms as other investors (Broughton Limited committed £2.5m).

Since inception St Peter Port has announced 28 investments, committing £47.3m to pre-IPO opportunities, a substantial proportion of which intend to list in London but many of which are focused on other stock markets. The managers believe that the current portfolio offers exciting prospects for returns and addresses areas of investment likely to attract continuing interest from investors over the coming months.

### Track Record
As previously, we have calculated the track record of our alternative asset class funds and structured finance since our first launch, Puma I, in 1996. Over this 11 year period, we calculate that the net return to investors from a composite of the vehicles was 25.3 per cent p.a.

### German Office
We are pleased to report the further development of the team at the office established in Berlin to undertake principal finance transactions and capital raisings as well as advising Puma Brandenburg. We now have a staff of 16 employees in Berlin and a second small office in Frankfurt, where three employees are currently based.

We are using our offices in Germany, together with the infrastructure and networks we are creating there, to give us better opportunities to access the fast-growing German market, and also Eastern Europe, for principal finance deals and also to assist the Puma Opportunities Fund we are launching (discussed below). It should in due course also enable us to leverage our growing connections with the local market to service entrepreneurial companies seeking to raise money and conduct business on the London AIM market.

### Puma Opportunities Fund

On 3 December we announced the intended launch of our latest fund, in partnership with Lehman Brothers. This is to be a European opportunities fund, for which we are seeking to raise up to US$500m. Lehman Brothers have pre-committed US$50m, whilst Shore Capital and its management are seeding the Fund with 5% of the amount raised. Lehman Brothers will take a 10% stake in the management company (general partner or "GP"). Shore Capital will have a 40 per cent interest in the GP and employee trusts 50 per cent. We have just begun the marketing process.

The intention is to provide mezzanine finance to entrepreneurs to take advantage of undervalued assets in the real estate market and will also itself buy assets on an opportunistic basis from distressed sellers. Leveraging Shore Capital's offices in Frankfurt and Berlin the fund's initial focus will be the major continental markets, primarily Germany and France.

Ralf Nöcker has joined us to head a new team and manage the new fund. Immediately prior to joining, Ralf spent 2 years as Managing Director and Co-Head of Real Estate Principal Investments (REPI) at Bear Stearns, where he advised Puma Brandenburg on the acquisitions of the Lurgi Haus in Frankfurt and the Hyatt Regency in Cologne. Previously, Ralf was a founding member of the Asset Finance Group and Head of Loan Syndication at Nomura International in London.

We are also pleased to announce that Lord Sterling, Executive Chairman of P&O Group from 1983 to 2005 and one of the UK's leading industrialists, has agreed to chair the advisory board of the Fund.

## Balance Sheet Holdings and Carried Interest

Our model when we establish new funds is to seed each fund with the Group's own cash, investing on the same terms as other investors. Each fund is structured to provide management fee income and carried interest subject to performance. This model has served well and generated good and growing returns over the medium term.

As discussed above, DSH (which had the largest carrying value of all our balance sheet holdings) has recently had its assets professionally revalued. The valuation of its hotels has been reduced by 5.2 per cent in the light of the general rise in property yields, notwithstanding the length of the lease (45 years), the strength of the covenant and its very unusual inflation-linking features.

Puma Brandenburg's share price has fallen below 80 pence at the end of December, notwithstanding the net asset value per share being €1.57 and sterling's substantial depreciation against the euro. Under our accounting policy we mark both holdings to market and as a consequence reduced their carrying value in the second half. Together with other similar and smaller adjustments, the effect was to eliminate the contribution which holdings in our balance sheet (and associated carried interest) made to our overall results.

We know these particular assets from direct management experience and are confident about their performance in the medium term. We have no plans to exit either of these holdings in the short term and believe these values will recover when debt markets improve.

## Employees

I should like 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.

## Current Trading and Prospects,

Market conditions in the year to date have been even more challenging than the second half of 2007, in particular for primary activity, and it is difficult to predict when this is likely to change. However, our assessment is that our business is in good shape today and great shape for the medium term, with a franchise which is stronger than ever, with a very liquid balance sheet and a flexible cost structure. The diversity of the Group's income streams and in particular the continued growth of asset management income and secondary commission mitigate the more testing environment for other parts of the business. We also know that sentiment can alter quickly, although it is unlikely that anyone will be able to identify in advance which trigger will give rise to this.

With our strong balance sheet and liquidity, we are seeking to take advantage of these challenging market conditions, whilst preserving our cautious approach. Our strategy is to continue to build on our strengths and exploit opportunities by innovating where we can, such as the launch of our new European Opportunities Fund.

**Howard P Shore**
Chairman

17 March 2008

# Board of Directors

**Howard Shore**
Executive Chairman

Howard Shore, 48, 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, 51, 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, 43. 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, 38. 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, 52, 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. He chairs the Audit Committee and the Remuneration Committee.

**Dr Zvi Marom**
Non-executive Director

Dr Marom, 53, 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, 43, 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, 44, 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, 52. 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, 43, 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, 44, 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.

**Thomas Marlinghaus**
Shore Capital
Germany – Chief
Operating Officer

Thomas Marlinghaus, 50. Thomas graduated with a degree in business administration and began his career at Berliner Bank, where he became an investment manager in the bank's private equity unit. In 1995, he joined a family-owned private equity and management group as managing director. In this role, Thomas acted as the CFO of ProMarkt, at the time Germany's second largest consumer electronic retail chain, which was sold to Kingfisher in 1998. Thomas was also directly responsible for identifying acquisition and disposal opportunities including in real estate. Thomas is Chief Operating Officer of Shore Capital's German team and also responsible for asset management.

**Ralf Nöcker**
Shore Capital
International –
Managing Director

Ralf Nöcker, 35. With a PhD from the University of Cologne and a Masters from the LSE, Ralf was previously Managing Director and Co-head of Bear Stearns' Real Estate Principal Investments. Prior to Bear Stearns, Ralf was a Vice President (and founding member) of Nomura's Asset Finance Group, where he was involved in several large real estate acquisitions. At Shore Capital, Ralf is heading up the team managing the newly created Puma Opportunities Fund.

# 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
Hill House
1 Little New Street
London EC4A 4TR

**Financial Adviser**
NM Rothschild & Sons Limited
New Court
St. Swithin's Lane
London EC4P 4DU

**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

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

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

### Board of Directors

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 Share Option Scheme. The terms and conditions of appointment of the non-executive directors are available for inspection by any person at the Group's registered office.

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

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

Mr H P Shore is Executive Chairman of the Board and also undertakes the function of full-time Chief Executive. In view of the size and nature of the Group, the Board does not consider it in the best interests of the Group to split the roles. The Executive Chairman has no significant 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 6 in total, nominations can be readily handled without a committee by the Board as a whole, whilst both non-executive directors are accessible to shareholders in the event of issues arising.

In accordance with the Principles of the Code, one third of the directors retire and offer themselves for re-election each year, and accordingly Dr Z Marom and Mr J S Paisner retire and offer themselves for re-election. A brief biography of each director is set out on page 10. Each of Dr Z Marom and Mr J S Paisner have continued to contribute effectively in their respective 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 is performing. The performance of executive directors is individually reviewed by the Chief Executive against previously agreed objectives and his performance is in turn appraised by the non-executive directors. Remuneration is directly linked to these reviews and determined by the Remuneration Committee. Remuneration is set at the level required to attract, retain, and motivate high calibre directors and a significant proportion of total remuneration is linked to corporate and individual performance.

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

The Board met four times during 2007. 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 2007 | 4 | 2 | 2 |
| Number of meetings attended in 2007 | | | |
| 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

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

### Audit Committee

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

The committee receives a report from the 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 2006. The report has therefore been divided into separate sections for information that is required to be audited and information that is not required to be audited.

*Information not required to be audited:*

### Remuneration Committee

The Board has appointed a Remuneration Committee 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.

### 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.

# Directors' Remuneration Report continued

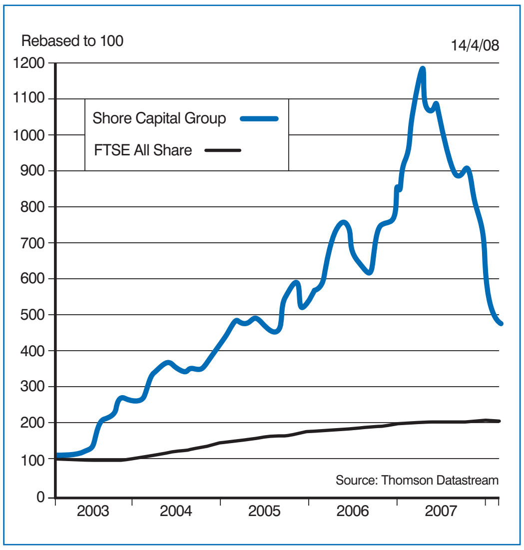
The exercise price of the options granted under the above scheme is no less than the market value of the company's shares at the time when the options are granted. Options granted under the Share Option Plan are subject to continuing service and the options of the directors do not vest until the end 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**
22 April 2008

# Directors' Report

The directors present their annual report and the audited financial statements of the Group for the financial year ended 31 December 2007.

### 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 22. An interim dividend of 0.55p per share (2006: 0.50p) was paid during the year. The directors propose a final dividend of 0.325p per share (2006: 0.67p) making a total for the year of 0.875p per share (2006: 1.17p).

### Capital structure

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

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

### Fixed assets

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

### Risk management

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

### Directors

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

| | 2p ordinary shares | |
|---|---|---|
| | **31 December 2007** | 31 December 2006 |
| 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 | **700,000** | 1,000,000 |
| Dr Z Marom | **501,521** | 501,521 |
| J B Douglas | **1,000,000** | 1,000,000 |

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

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

### Charitable and political donations

The Group made charitable donations of £18,000 (2006: £30,000) during the year. No political donations were made during the period (2006: £50,000).

### Acquisition of the company's own shares

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

### Events after the balance sheet date

Details of significant events since the balance sheet date are set out in note 25.

### 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 35 days (2006: 26 days).

# Directors' Report continued

## 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 21 April 2008:

| | Ordinary Shares | % |
|---|---|---|
| The J P Morgan Fleming Mercantile Investment Trust Plc | 25,337,543 | 8.3 |
| Jupiter Asset Management | 18,545,875 | 6.1 |
| Legal & General | 10,806,128 | 3.6 |

## 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

22 April 2008

# 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 2007 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 24. 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 2006 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 as described in the contents section and consider whether it is consistent with the audited financial statements. 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.

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 2007 and of its profit for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2007;
- the parent company 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
- the information given in the Directors' Report is consistent with the financial statements.

### Separate opinion in relation to IFRSs

As explained in Note 1 to the group financial statements, the group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the group financial statements give a true and fair view, in accordance with IFRSs, of the state of the group's affairs as at 31 December 2007 and of its profit for the year then ended.

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

22 April 2008

# Consolidated Income Statement

For the year ended 31 December 2007

| | Notes | 2007 £'000 | 2006 £'000 |
|---|---|---|---|
| **Revenue** | 1, 2 | **38,824** | 42,065 |
| Administrative expenditure | | **(24,985)** | (22,201) |
| **Operating profit** | 3 | **13,839** | 19,864 |
| | | | |
| Investment income | 4 | **1,187** | 620 |
| Finance costs | 5 | **(765)** | (432) |
| | | **422** | 188 |
| | | | |
| **Profit before taxation** | 2 | **14,261** | 20,052 |
| Taxation | 7 | **(3,231)** | (5,968) |
| **Profit for the year** | | **11,030** | 14,084 |
| | | | |
| **Attributable to:** | | | |
| Equity holders of the parent | | **8,799** | 12,850 |
| Minority interests | | **2,231** | 1,234 |
| | | **11,030** | 14,084 |
| | | | |
| **Earnings per share** | | | |
| Basic | 10 | **2.91p** | 4.67p |
| Diluted | 10 | **2.77p** | 4.43p |

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

# Consolidated Balance Sheet

As at 31 December 2007

| | Notes | 2007 £'000 | 2006 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | 13 | **381** | 381 |
| Property, plant & equipment | 14 | **11,778** | 717 |
| Available-for-sale investments | 6.c, 15 | **1,715** | 1,572 |
| Deferred tax asset | 7 | **1,877** | 3,949 |
| | | **15,751** | 6,619 |
| **Current assets** | | | |
| Bull positions and other holdings designated at fair value | 16 | **62,497** | 62,794 |
| Trade and other receivables | 17 | **41,764** | 36,460 |
| Derivatives | | **28** | 380 |
| Cash and cash equivalents | 6.c, 18 | **16,743** | 8,332 |
| | | **121,032** | 107,966 |
| **Total assets** | | **136,783** | 114,585 |
| **Current liabilities** | | | |
| Bear positions | | **(2,388)** | (2,974) |
| Trade and other payables | 19 | **(27,696)** | (26,091) |
| Derivatives | | **(202)** | – |
| Tax liabilities | | **(3,595)** | (5,966) |
| Bank overdrafts | 18, 20 | **(356)** | (9) |
| Borrowings | 20 | **(200)** | – |
| | | **(34,437)** | (35,040) |
| **Non-current liabilities** | | | |
| Borrowings | 20 | **(19,453)** | – |
| Provision for liabilities and charges | 21 | **(556)** | (1,482) |
| **Total liabilities** | | **(54,446)** | (36,522) |
| **Net Current Assets** | | **86,595** | 72,926 |
| **Net Assets** | | **82,337** | 78,063 |
| **EQUITY** | | | |
| **Capital and Reserves** | | | |
| Called up share capital | 23 | **6,058** | 6,032 |
| Share premium account | | **19,477** | 19,248 |
| Capital redemption reserve | | **971** | 971 |
| Own shares | 23 | **(1,195)** | – |
| Other reserve | | **429** | 665 |
| Retained earnings | | **51,216** | 48,351 |
| **Equity attributable to equity holders of the parent** | | **76,956** | 75,267 |
| Minority interest | | **5,381** | 2,796 |
| **Total equity** | | **82,337** | 78,063 |

Approved by the Board of Directors on 22 April 2008. Signed on behalf of the Board of Directors

**H P Shore**
Director

**M L van Messel**
Director

# Company Balance Sheet

As at 31 December 2007

| | Notes | 2007 £'000 | 2006 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant & equipment | 14 | **151** | 105 |
| Investments in subsidiaries | 15 | **28,135** | 33,685 |
| Loan to subsidiary | | **1,800** | 1,800 |
| Deferred tax asset | 7 | **1,347** | 3,578 |
| | | **31,433** | 39,168 |
| **Current assets** | | | |
| Trade and other receivables | 17 | **570** | 1,121 |
| Amounts owed by subsidiary undertakings | | **23,024** | 16,851 |
| Cash and cash equivalents | 18 | **2,019** | 1,118 |
| | | **25,613** | 19,090 |
| **Total assets** | | **57,046** | 58,258 |
| **Current liabilities** | | | |
| Trade and other payables | 19 | **(1,393)** | (2,691) |
| Amounts owed to subsidiary undertakings | | **(2,915)** | (2,227) |
| Tax liabilities | | **(720)** | (242) |
| Bank overdrafts | 18 | **(353)** | – |
| | | **(5,381)** | (5,160) |
| **Non-current liabilities** | | | |
| Provision for liabilities and charges | 21 | **(556)** | (1,482) |
| **Total liabilities** | | **(5,937)** | (6,642) |
| **Net Current Assets** | | **20,232** | 13,930 |
| **Net Assets** | | **51,109** | 51,616 |
| **EQUITY** | | | |
| **Capital and Reserves** | | | |
| Called up share capital | 23 | **6,058** | 6,032 |
| Share premium account | | **19,477** | 19,248 |
| Capital redemption reserve | | **971** | 971 |
| Own shares reserve | 23 | **(1,195)** | – |
| Other reserve | | **256** | 256 |
| Retained earnings | | **25,542** | 25,109 |
| **Total equity** | | **51,109** | 51,616 |

Approved by the Board of Directors on 22 April 2008. 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 2007

| | Share capital £'000 | Share premium account £'000 | Capital redemption reserve £'000 | Own shares £'000 | Other reserve £'000 | Retained earnings £'000 | Minority Interest £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2006 | 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 | – | – | – | – | 270 | – | – | 270 |
| – Related deferred tax charge | – | – | – | – | (81) | – | – | (81) |
| Current year tax credit recognised directly in equity | – | – | – | – | – | 521 | – | 521 |
| Deferred tax credit recognised directly in equity | – | – | – | – | – | 3,434 | – | 3,434 |
| Equity dividends paid | – | – | – | – | – | (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 |
| Retained profit for the year | – | – | – | – | – | 8,799 | 2,231 | 11,030 |
| Credit in relation to IFRS2 charge for share based payments | – | – | – | – | 78 | – | – | 78 |
| Available-for-sale ("AFS") investments: | | | | | | | | |
| – Transfer to income on sale of AFS investments | – | – | – | – | (514) | – | – | (514) |
| – Tax on AFS investments transferred from equity | – | – | – | – | 154 | – | – | 154 |
| – Revaluation in the year of AFS investments | – | – | – | – | 46 | – | – | 46 |
| Reduction in deferred tax credit recognised directly in equity | – | – | – | – | – | (2,254) | – | (2,254) |
| Equity dividends paid | – | – | – | – | – | (3,680) | – | (3,680) |
| Shares issued in respect of options exercised | 26 | 229 | – | – | – | – | – | 255 |
| Repurchase of own shares | – | – | – | (1,195) | – | – | – | (1,195) |
| Shares/participations issued in subsidiaries to minority interest | – | – | – | – | – | – | 1,194 | 1,194 |
| Dividends paid to minority interest | – | – | – | – | – | – | (840) | (840) |
| **At 31 December 2007** | **6,058** | **19,477** | **971** | **(1,195)** | **429** | **51,216** | **5,381** | **82,337** |

# Company Statement of Changes in Equity

For the year ended 31 December 2007

| | Share capital £'000 | Share premium account £'000 | Capital redemption reserve £'000 | Own shares £'000 | Other reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2006 | 5,408 | 1,030 | 971 | – | 202 | 23,727 | 31,338 |
| Retained loss for the year | – | – | – | – | – | 150 | 150 |
| Current year tax credit recognised directly in equity | – | – | – | – | – | 521 | 521 |
| Deferred tax credit recognised directly in equity | – | – | – | – | – | 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 |
| Retained profit for the year | – | – | – | – | – | 6,367 | 6,367 |
| Deferred tax credit recognised directly in equity (note 7) | – | – | – | – | – | (2,254) | (2,254) |
| Equity dividends paid (note 9) | – | – | – | – | – | (3,680) | (3,680) |
| Shares issued in respect of options exercised | 26 | 229 | – | – | – | – | 255 |
| Repurchase of own shares | – | – | – | (1,195) | – | – | (1,195) |
| **At 31 December 2007** | **6,058** | **19,477** | **971** | **(1,195)** | **256** | **25,542** | **51,109** |

# Consolidated Cash Flow Statement

For the year ended 31 December 2007

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Operating profit | **13,839** | 19,864 |
| Adjustments for: | | |
| Depreciation charges | **370** | 313 |
| Share-based payment expense | **78** | 54 |
| Profit on sale of fixed assets | **(20)** | – |
| Transfer to income on sale of AFS investments, less related tax | **(360)** | – |
| (Decrease)/increase in provision for National Insurance on options | **(926)** | 687 |
| Operating cash flows before movements in working capital | **12,981** | 20,918 |
| Increase in trade and other receivables | **(4,912)** | (2,967) |
| Increase in trade and other payables | **1,743** | 4,627 |
| (Decrease)/increase in bear positions | **(586)** | 1,134 |
| Decrease/(increase) in bull positions | **198** | (11,348) |
| Decrease/(increase) in tradeable loan instruments | **99** | (20,056) |
| **Cash generated/(utilised) by operations** | **9,523** | (7,692) |
| Interest paid | **(700)** | (433) |
| Corporation tax paid | **(5,784)** | (1,913) |
| **Net cash generated/(utilised) by operating activities** | **3,039** | (10,038) |
| **Cash flows from investing activities** | | |
| Purchase of fixed assets | **(11,454)** | (436) |
| Purchase of AFS investments | **(97)** | (46) |
| Proceeds on disposal fixed assets | **42** | – |
| Interest received | **1,147** | 618 |
| **Net cash (utilised)/generated from investing activities** | **(10,362)** | 136 |
| **Cash flows from financing activities** | | |
| Shares issued for cash | **–** | 18,191 |
| Shares issued following exercise of options | **255** | 651 |
| Less related National Insurance paid | **–** | (222) |
| Repurchase of shares | **(1,195)** | – |
| Increase in borrowings | **19,653** | – |
| Shares issued in subsidiary to Minority Interests | **1,194** | – |
| Dividends paid to Minority Interests | **(840)** | (314) |
| Dividends paid to Equity holders | **(3,680)** | (2,723) |
| **Net cash generated by financing activities** | **15,387** | 15,583 |
| **Net increase in cash and cash equivalents** | **8,064** | 5,681 |
| **Cash and cash equivalents at the beginning of the year** | **8,323** | 2,642 |
| **Cash and cash equivalents at the end of the year** | **16,387** | 8,323 |

# Company Cash Flow Statement

For the year ended 31 December 2007

| | 2007<br>£'000 | 2006<br>£'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Operating profit/(loss) | 3,580 | (2) |
| Adjustments for: | | |
| Depreciation charges | 41 | 31 |
| Profit on disposal | (20) | – |
| Share-based payments | – | 54 |
| (Decrease)/increase in provision for National Insurance on options | (926) | 687 |
| Operating cashflows before movement in working capital | 2,675 | 770 |
| Increase in trade and other receivables | (5,622) | (5,803) |
| Decrease in trade and other payables | (610) | (9,732) |
| **Cash utilised by operations** | (3,557) | (14,765) |
| Interest paid | (9) | – |
| Corporation tax paid | (242) | (172) |
| **Net cash utilised by operating activities** | (3,808) | (14,937) |
| **Cash flows from investing activities** | | |
| Purchase of property, plant & equipment and motor vehicles | (110) | (28) |
| Disposal of motor vehicle | 43 | – |
| Decrease in investment in subsidiaries | 5,550 | – |
| Interest received | 195 | 178 |
| Dividends received | 3,298 | – |
| **Net cash generated by investing activities** | 8,976 | 150 |
| **Cash flows from financing activities** | | |
| Shares issued for cash | – | 18,191 |
| Shares issued following exercise of options | 255 | 651 |
| Less related National Insurance paid | – | (222) |
| Dividends paid | (3,680) | (2,723) |
| Repurchase of own shares | (1,195) | – |
| **Net cash utilised by financing activities** | (4,620) | (15,897) |
| **Net increase in cash and cash equivalents** | 548 | 1,110 |
| **Cash and cash equivalents at the beginning of the year** | 1,118 | 8 |
| **Cash and cash equivalents at the end of the year** | 1,666 | 1,118 |

# Notes to the Accounts

For the financial year ended 31 December 2007

## 1. Accounting Policies – Group

**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.

**Adoption of new and revised standards**

In the current year, the Group has adopted IFRS 7: Financial Instruments: Disclosures, which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendment to IAS 1: Presentation of Financial Statements. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital. Four interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. They are: 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; and IFRIC 10: Interim Financial Reporting and Impairment. The adoption of these interpretations has not led to any changes in the Group's Accounting policies.

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 8: Operating Segments

IFRIC 12: Service Concession Arrangements

IFRIC 14: IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

The Group has opted for early adoption of IFRIC 11: IFRS2 - Group and Treasury Share Transactions, the effective date being for annual periods beginning on or after 1 March 2007. There is no net impact on the results.

**General information**

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

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The financial statements are rounded to the nearest thousand (expressed as thousands to one decimal place – £'000), except where otherwise indicated. The principal accounting policies adopted are set out below.

**Basis of consolidation**

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

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.

# Notes to the Accounts continued

For the financial year ended 31 December 2007

## 1. Accounting Policies – Group continued

**Revenue**

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

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

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

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

**Financial instruments**

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

*Financial Assets and liabilities*

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

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

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

*Effective interest method*

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

*Financial assets and liabilities at FVTPL*

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

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

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

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

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

## 1. Accounting Policies – Group continued

*Financial assets and liabilities at FVTPL continued*

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

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

The Group's financial assets designated as at FVTPL upon initial recognition includes positions in quoted and unquoted securities. The valuation technique and assumptions used to fair value these instruments is disclosed within Note 15.

*AFS investments*

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

*Loans and receivables*

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

*Derecognition of financial assets*

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

### 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.

### Trade and other payables

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

### Equity instruments

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

### Repurchase of share capital (treasury shares)

Where share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, net of any tax effects, is recognised as a deduction from equity. When treasury shares are sold or re-issued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

# Notes to the Accounts continued

For the financial year ended 31 December 2007

## 1. Accounting Policies – Group continued

**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.

**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.

**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 |

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

**Property and operating leases**

Rentals paid under operating leases are charged to 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.

## 1. Accounting Policies – Group continued

**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.

**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.

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.

# Notes to the Accounts continued

For the financial year ended 31 December 2007

## 1. Accounting Policies continued

### Accounting Policies – Company

**Accounting convention**

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

**Investment in subsidiaries**

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

**Financial Instruments**

The Company has adopted FRS25: Financial Instruments: Presentation and FRS26: Financial instruments: Recognition and Measurement. FRS29: Financial Instruments: Disclosures is applicable for the year ended 31 December 2007. As disclosures equivalent to that required under FRS 29 are given in consolidated Group accounts, which are publicly available, the company is exempt from the disclosures required by FRS 29 in its own accounts.

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

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| **Revenue** | | |
| Equity Capital Markets | 29,757 | 24,780 |
| Asset management, principal finance and own balance sheet | 9,067 | 17,285 |
| | 38,824 | 42,065 |

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| **Profit before taxation** | | |
| Equity Capital Markets | 9,549 | 8,312 |
| Asset management, principal finance and own balance sheet | 4,712 | 11,740 |
| | 14,261 | 20,052 |

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

| | Equity Capital Markets £'000 | Asset Management Principal Finance/ own Balance Sheet £'000 | Consolidated £'000 |
|---|---|---|---|
| **Net assets** | | | |
| **Assets** | 48,631 | 88,152 | 136,783 |
| **Liabilities** | (30,809) | (23,637) | (54,446) |
| **At 31 December 2007** | 17,822 | 64,515 | 82,337 |
| Assets | 44,692 | 69,893 | 114,585 |
| Liabilities | (30,402) | (6,120) | (36,522) |
| At 31 December 2006 | 14,290 | 63,773 | 78,063 |

## 3. Operating Profit

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Operating profit has been arrived at after charging: | | |
| Depreciation | 371 | 313 |
| Property lease rentals | 543 | 435 |
| Loss on disposal of fixed assets | 20 | – |

| | 2007 £'000 | 2006 £'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 | 16 | 15 |
| – other services to the group: audit of the company's subsidiaries | 59 | 55 |
| Total audit fees | 75 | 70 |

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Fees payable to the company's auditors and their associates for other services to the group: | | |
| – Tax services | 20 | 18 |
| – Regulatory services | 6 | – |
| – Other services | 7 | 6 |
| Total non-audit fees | 33 | 24 |

## 4. Interest Income

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Bank interest | 804 | 434 |
| Other interest receivable | 383 | 186 |
| | 1,187 | 620 |

## 5. Finance Costs

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Bank loans and overdrafts repayable within five years | 457 | 404 |
| Other interest payable | 308 | 28 |
| | 765 | 432 |

# Notes to the Accounts continued

For the financial year ended 31 December 2007

## 6. Employees and Directors

### a) Employee numbers

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

| | 2007 No. | 2006 No. |
|---|---|---|
| **Investment banking activities:** | | |
| Securities | 58 | 44 |
| Corporate Advisory | 11 | 11 |
| Asset Management | 33 | 21 |
| | 102 | 76 |

### b) The costs incurred in respect of these employees comprise

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Salaries and commission | 12,902 | 11,388 |
| Social security costs | 779 | 2,189 |
| Pension costs | 117 | 108 |
| | 13,798 | 13,685 |

### 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 2007, the Trust held cash of £835,000 (2006: £544,000) and available for sale investments of £432,000 (2006: £261,000).

### d) Employee Share Option Plan

The Group maintains a Share Option Plan under which present and future employees of the Group may be granted options to subscribe for up to 10% of the Group's issued share capital from time to time (on a fully-diluted basis). The plan is used to attract and retain high-calibre employees to continue to develop and expand the business of the Group. Such options are granted by the Board at a price no less than the average quoted market price of the company's share on the date of grant. The vesting period is generally 3 years. If the options remain unexercised after a period of ten years from the date of grant the options expire. Options are forfeited if the employee chooses to leaves the Group before the options vest. As at 31 December 2007, there were 21,398,781 (2006: 22,692,498) options in issue under the plan representing 6.60% (2006: 7.00%) of the Group's issued share capital on a fully diluted basis. Details of the share options outstanding during the year are as follows:

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Number of share options | Weighted average exercise price | Number of share options | Weighted average exercise price |
| Outstanding at beginning of period | 22,692,498 | 18.9p | 25,826,966 | 17.2p |
| Granted during the period | – | – | 1,000,000 | 50.5p |
| Forfeited during the period | – | – | (73,170) | 20.5p |
| Exercised during the period | (1,293,717) | 19.7p | (4,061,298) | 16.0p |
| Expired during the period | – | – | – | – |
| Outstanding at the end of the period | 21,398,781 | 18.9p | 22,692,498 | 18.9p |
| Exercisable at the end of the period | 20,398,781 | | 21,692,498 | |

The weighted average exercise price at the date of exercise for share options exercised during 2007 was 19.7p (2006: 16.0p). The options outstanding at 31 December 2007 had a weighted average exercise price of 18.9p (2006: 18.9p), and a weighted average remaining contractual life of 4 years 6 months (2006: 5 years 6 months). No options were granted in 2007 (2006: 500,000 options were granted on each of 12 January and 11 July).

## 6. Employees and Directors continued

### d) Employee Share Option Plan continued

Using a Black-Scholes option pricing model, the aggregate of the estimated fair value of the options granted in 2006 was £228,000. The inputs into the Black-Scholes model were as follows:

| | 2007 | 2006 |
|---|---|---|
| Weighted average exercise price | – | 50.5 p |
| Expected volatility | – | 0.2254 |
| Expected life | – | 10 years |
| Risk-free rate | – | 4.50% |
| Expected dividend yields | – | 1.50% |

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

In 2007, the group recognised total expenses of £78,000 (2006: £54,000) related to equity-settled share-based payment transactions.

### e) Emoluments of the Directors

| 2007 | Gross salary £'000 | Bonus, commission and other income £'000 | Fees £'000 | Pension Contributions £'000 | Benefits £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| H P Shore | 200 | 864 | – | – | 31 | 1,095 |
| G B Shore | 150 | 275 | – | 10 | 1 | 436 |
| M L van Messel | 120 | 80 | – | 12 | 2 | 214 |
| J S Paisner | 130 | 315 | – | 13 | 1 | 459 |
| Dr Z Marom | 5 | – | 25 | – | – | 30 |
| J B Douglas | 5 | – | 28 | – | – | 33 |
| | 610 | 1,534 | 53 | 35 | 35 | 2,267 |

| 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 | 5 | – | 25 | – | – | 30 |
| J B Douglas | 5 | – | 36* | – | – | 41 |
| | 551 | 1,520 | 61 | 33 | 37 | 2,202 |

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

# Notes to the Accounts continued

For the financial year ended 31 December 2007

## 6. Employees and Directors continued

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

| | Number of options over unissued ordinary shares | Date of grant | Exercise price per ordinary share | Exercise date |
|---|---|---|---|---|
| H P Shore | 6,068,331 | 15 January 2002 | 20.5p | Before 14 January 2012 |
| G B Shore | 1,685,647 | 15 January 2002 | 20.5p | Before 14 January 2012 |
| 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 |

No options were exercised by directors during the year. In the prior year, 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. 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 2007 was 40.0p (2006: 76.5p) and the range during the year was 40.0p to 76.5p.

### 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:

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Recharged to: | | |
| Shore Capital Markets Limited | **1,370** | 648 |
| Shore Capital Limited | **600** | 600 |
| Shore Capital Trading Limited | **1,200** | 900 |
| | **3,170** | 2,148 |

At 31 December 2007 subsidiary undertakings owed a net amount of £20,109,000 (2006: £14,624,000 owed to subsidiaries).

See note 14 for details of co-investment.

### 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;

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Salaries and other short-term benefits | **2,739** | 3,128 |
| | **2,739** | 3,128 |

## 7. Tax on Profit on Ordinary Activities

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| The tax charge comprises: | | |
| Provision for United Kingdom corporation tax charge at 30% (2006: 30%) | 3,413 | 6,483 |
| Movement in deferred tax due to timing differences | (182) | (515) |
| | 3,231 | 5,968 |

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:

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Profit on ordinary activities before tax | 14,261 | 20,052 |
| Tax thereon at 30% | 4,278 | 6,016 |
| Effects of: | | |
| Expenses not deductible for tax purposes | 78 | 203 |
| Income not chargeable to tax | (268) | (56) |
| Share based payments | (34) | (78) |
| Depreciation in excess of capital allowances | (67) | 43 |
| Timing differences | (24) | – |
| Capital losses utilised | (7) | (19) |
| Credit arising on consolidation | (792) | – |
| Other | 67 | 5 |
| Amounts taxed at lower rates | – | (2) |
| Release additional provision | – | (144) |
| | 3,231 | 5,968 |

**Deferred tax asset – Group**

| | Share based payments £'000 | Timing differences £'000 | Total £'000 |
|---|---|---|---|
| At 1 January 2007 | 3,528 | 421 | 3,949 |
| Credit to income | – | 182 | 182 |
| Credit to equity | (2,231) | (23) | (2,254) |
| **At 31 December 2007** | **1,297** | **580** | **1,877** |

**Deferred tax asset – Company**

| | Share based payments £'000 | Timing differences £'000 | Total £'000 |
|---|---|---|---|
| At 1 January 2007 | 3,528 | 50 | 3,578 |
| Credit to income | 23 | – | 23 |
| Credit to equity | (2,254) | – | (2,254) |
| **At 31 December 2007** | **1,297** | **50** | **1,347** |

# Notes to the Accounts continued

For the financial year ended 31 December 2007

## 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 £6,367,000 (2006: £150,000).

## 9. Rates of Dividends Paid and Proposed

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Amounts recognised as distributions to equity holders in the period: | | |
| Final dividend for the year ended 31 December 2006 of 0.67p per share (2005: 0.50p ) | **2,021** | 1,352 |
| Interim dividend for the year ended 31 December 2007 of 0.55p per share (2006: 0.50p ) | **1,659** | 1,371 |
| | **3,680** | 2,723 |
| Proposed final dividend for the year ended 31 December 2007 of 0.325p per share (2006: 0.67p) | **962** | 2,021 |

## 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:

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Basic | Diluted | Basic | Diluted |
| Earnings (£) | **8,799,000** | **8,799,000** | 12,850,000 | 12,850,000 |
| Number of shares | **302,049,477** | **317,949,478** | 275,004,994 | 290,239,610 |
| Earnings per share | **2.91p** | **2.77p** | 4.67p | 4.43p |

### Calculation of number of shares

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Basic | Diluted | Basic | Diluted |
| Weighted average number of shares | **302,049,477** | **302,049,477** | 275,004,994 | 275,004,994 |
| Dilutive effect of share option schemes | **–** | **15,900,001** | – | 15,234,616 |
| | **302,049,477** | **317,949,478** | 275,004,994 | 290,239,610 |

## 11. Lease Commitments

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Minimum lease payments under operating leases recognised as an expense during the year | **543** | 435 |

At 31 December 2007 the Group had outstanding commitments for future minimum lease payments under operating leases, which fall due as follows:

| Operating leases | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Leases expiring between two and five years | **324** | 289 |
| Leases expiring between five and ten years | **179** | 34 |
| | **503** | 323 |

## 12. Categories of Financial Assets and Liabilities

| At 31 December 2007 | Designated at fair value £'000 | Held for trading £'000 | Loans and receivables £'000 | Available for sale securities £'000 | Financial assets and liabilities at amortised cost £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash and cash equivalents | – | – | – | – | 16,743 | 16,743 |
| Trading assets (bull positions) | 53,979 | 8,518 | – | – | – | 62,497 |
| Trade debtors in the course of collection | – | – | – | – | 35,018 | 35,018 |
| Derivatives | – | 28 | – | – | – | 28 |
| Loans | – | – | 2,098 | – | – | 2,098 |
| Financial investments | – | – | – | 1,715 | 359 | 2,074 |
| Other assets | – | – | – | – | 2,345 | 2,345 |
| Accrued income | – | – | – | – | 1,944 | 1,944 |
| | 53,979 | 8,546 | 2,098 | 1,715 | 56,409 | 122,747 |
| **Financial liabilities** | | | | | | |
| Bank overdrafts and borrowings | – | – | – | – | 20,009 | 20,009 |
| Trading positions (bear positions) | – | 2,388 | – | – | – | 2,388 |
| Trade creditors in the course of collection | – | – | – | – | 16,879 | 16,879 |
| Derivatives | – | 202 | – | – | – | 202 |
| Other liabilities | – | – | – | – | 7,072 | 7,072 |
| Accruals | – | – | – | – | 2,770 | 2,770 |
| | – | 2,590 | – | – | 46,730 | 49,320 |

| At 31 December 2006 | Designated at fair value £'000 | Held for trading £'000 | Loans and receivables £'000 | Available for sale securities £'000 | Financial assets and liabilities at amortised cost £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash and cash equivalents | – | – | – | – | 8,332 | 8,332 |
| Trading assets (bull positions) | 55,467 | 7,327 | – | – | – | 62,794 |
| Trade debtors in the course of collection | – | – | – | – | 29,546 | 29,546 |
| Derivatives | 380 | – | – | – | – | 380 |
| Loans | – | – | 1,019 | – | – | 1,019 |
| Financial investments | – | – | – | 1,572 | – | 1,572 |
| Other assets | – | – | – | – | 3,710 | 3,710 |
| Accrued income | – | – | – | – | 2,185 | 2,185 |
| | 55,847 | 7,327 | 1,019 | 1,572 | 43,773 | 109,538 |
| **Financial liabilities** | | | | | | |
| Bank overdrafts and borrowings | – | – | – | – | 9 | 9 |
| Trading positions (bear positions) | 396 | 2,578 | – | – | – | 2,974 |
| Trade creditors in the course of collection | – | – | – | – | 16,614 | 16,614 |
| Derivatives | – | – | – | – | – | – |
| Other liabilities | – | – | – | – | 3,606 | 3,606 |
| Accruals | – | – | – | – | 5,448 | 5,448 |
| | 396 | 2,578 | – | – | 25,677 | 28,651 |

# Notes to the Accounts continued

For the financial year ended 31 December 2007

## 13. Goodwill

| Cost | Goodwill arising on the acquisition of Minority Interest in subsidiary £'000 |
|---|---|
| At 1 January and 31 December 2007 | 381 |
| **Amortisation** | |
| At 1 January and 31 December 2007 | – |
| **Net Book Value** | |
| **At 31 December 2007** | **381** |
| At 31 December 2006 | 381 |

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

## 14. Property, Plant & Equipment – Group

| Cost | Leasehold premises £'000 | Fixtures and equipment £'000 | Motor vehicles £'000 | Total £'000 |
|---|---|---|---|---|
| At 1 January 2006 | 320 | 910 | 138 | 1,368 |
| Additions | 120 | 316 | – | 436 |
| At 1 January 2007 | 440 | 1,226 | 138 | 1,804 |
| Additions | 643 | 10,724 | 86 | 11,453 |
| Disposals | – | – | (70) | (70) |
| **At 31 December 2007** | **1,083** | **11,950** | **154** | **13,187** |
| **Depreciation** | | | | |
| At 1 January 2006 | 177 | 547 | 50 | 774 |
| Charge for the year | 53 | 236 | 24 | 313 |
| At 1 January 2007 | 230 | 783 | 74 | 1,087 |
| Charge for the year | 113 | 232 | 26 | 371 |
| Disposals | – | – | (49) | (49) |
| **At 31 December 2007** | **343** | **1,015** | **51** | **1,409** |
| **Net Book Value** | | | | |
| **At 31 December 2007** | **740** | **10,935** | **103** | **11,778** |
| At 31 December 2006 | 210 | 443 | 64 | 717 |

Fixtures and equipment additions includes £10,223,000 relating to assets being acquired for rental through a commercial venture (The Lily Partnership) in which the Group (80%) and H P Shore (20%) are partners. These assets have been given as security for borrowings which fund 90% of the purchase consideration. As at 31 December 2007, these assets had not been depreciated as they were not yet available for use.

## 14. Property, Plant & Equipment continued – Company

| Cost | Fixtures and equipment £'000 | Motor vehicles £'000 | Total £'000 |
|---|---|---|---|
| At 1 January 2006 | 118 | 138 | 256 |
| Additions | 28 | – | 28 |
| At 1 January 2007 | 146 | 138 | 284 |
| Additions | 25 | 85 | 110 |
| Disposals | – | (70) | (70) |
| **At 31 December 2007** | **171** | **153** | **324** |
| **Depreciation** | | | |
| At 1 January 2006 | 99 | 49 | 148 |
| Charge for the year | 8 | 23 | 31 |
| At 1 January 2007 | 107 | 72 | 179 |
| Charge for the year | 15 | 26 | 41 |
| Disposal | – | (47) | (47) |
| **At 31 December 2007** | **122** | **51** | **173** |
| **Net Book Value** | | | |
| **At 31 December 2007** | **49** | **102** | **151** |
| At 31 December 2006 | 39 | 66 | 105 |

## 15. Investments

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

Available for Sale Investments of £1,715,000 (2006: £1,572,000) includes £432,000 (2006: £261,000) held in the Shore Capital Group Employee Benefit Trust.

| Cost | Listed investments £'000 | Unlisted investments £'000 | Total £'000 |
|---|---|---|---|
| At 1 January 2007 | – | 1,014 | 1,014 |
| Additions | – | 97 | 97 |
| **At 31 December 2007** | **–** | **1,111** | **1,111** |
| **Revaluation** | | | |
| At 1 January 2007 | – | 558 | 558 |
| Revaluation in the year | – | 46 | 46 |
| **At 31 December 2007** | **–** | **604** | **604** |
| **Valuation** | | | |
| **At 31 December 2007** | **–** | **1,715** | **1,715** |
| At 31 December 2006 | – | 1,572 | 1,572 |

Available for sale assets comprise principally unlisted equity securities that present the Group with opportunity for return through dividend income and capital gains. They have no fixed maturity or coupon rate.

# Notes to the Accounts continued

For the financial year ended 31 December 2007

## 15. Investments continued

**Investments in Subsidiaries – Company**

| | Shares in subsidiary undertakings |
|---|---|
| **Cost and valuation** | |
| At 1 January 2007 and 1 January 2006 | 33,685 |
| Additions | 24,500 |
| Liquidations | (30,050) |
| **At 31 December 2007** | **28,135** |

**Additional information on principal subsidiaries.**

| Subsidiary | | Country of registration and operation | Activity | Portion of ordinary shares and voting rights held |
|---|---|---|---|---|
| **Trading Companies** | | | | |
| Shore Capital Markets Limited | 1 | England and Wales | Intermediate Holding Co. | 77.6% |
| Shore Capital Stockbrokers Limited | 2 | England and Wales | Broker/dealer | 77.6% |
| Shore Capital and Corporate Limited | 2 | England and Wales | Corporate advisers | 77.6% |
| 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% |
| Shore Capital (Japan) Limited | | England and Wales | Credit provider | 100% |
| Puma Property Advisors Limited | | Guernsey | Property advisory services | 100% |
| JellyWorks Limited | | England and Wales | Dormant | 100% |
| **Limited Liability Partnerships** | | | | |
| The Lily Partnership LLP | | England and Wales | Asset rental business | 80% |
| **Nominee Company** | | | | |
| Puma Nominees Limited | | England and Wales | Nominee company | 100% |

1 Shore Capital Markets Limited is the intermediate holding company of, and holds 100% of the ordinary shares and voting rights in, each of Shore Capital Stockbrokers Limited and Shore Capital and Corporate Limited. The Company currently has a direct holding of 77.6% in Shore Capital Markets Limited. The balance of the shares in Shore Capital Markets Limited were bought by senior executives of that company and its subsidiaries.

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

## 16. Bull positions and other holdings

| | Group 2007 £'000 | Company 2007 £'000 | Group 2006 £'000 | Company 2006 £'000 |
|---|---|---|---|---|
| **Held For Trading** | | | | |
| Listed holdings at market value: | | | | |
| Equities | 8,518 | – | 8,796 | – |
| **Designated at Fair Value** | | | | |
| Listed holdings at market value: | | | | |
| Equities | 1,201 | – | – | – |
| Debt instruments | 19,957 | – | 20,006 | – |
| Invested in own funds and products | 8,600 | – | 5,000 | – |
| Unlisted holdings: | | | | |
| Invested in own funds and products | 19,913 | – | 25,499 | – |
| Other (including hedge funds) | 4,308 | – | 3,493 | – |
| | 62,497 | – | 62,794 | – |

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

1. for listed holdings the fair value is determined, in whole, by reference to published price quotations, having regard to the size and liquidity of the holding.
2. for unlisted holdings fair value is determined 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. The fair value of the largest holding has been estimated using a Black Scholes valuation model and is based on the net asset value of the investee company, the expected volatility of its shares, the expected life of the holding, expected dividend yields as well as the risk free rate of money.

## 17. Trade and Other Receivables

| | Group 2007 £'000 | Company 2007 £'000 | Group 2006 £'000 | Company 2006 £'000 |
|---|---|---|---|---|
| Trade debtors | 35,018 | – | 29,546 | – |
| Other debtors | 2,704 | 135 | 3,710 | 63 |
| Loans | 2,098 | – | 1,019 | – |
| UK corporation tax | – | 352 | – | 1,031 |
| Prepayments and accrued income | 1,944 | 83 | 2,185 | 27 |
| | 41,764 | 570 | 36,460 | 1,121 |

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

Collateral is held as security for loans made, generally in the form of equities. Such collateral is held at Pershing Securities Limited and is not permitted to be repledged.

The table below shows the ageing of trade debtors which are past due.

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Between 30 and 60 days | 475 | 1,617 |
| Between 60 and 90 days | 220 | 491 |
| Greater than 90 days | 1,929 | 1,154 |
| | 2,624 | 3,262 |
| Amounts not yet due | 39,140 | 33,198 |
| Trade receivables | 41,764 | 36,460 |

# Notes to the Accounts continued

For the financial year ended 31 December 2007

## 18. Cash and Cash Equivalents

**Group**

Cash at bank and in hand of £16,743,000 (2006: £8,332,000) includes £835,000 (2006: £544,000) held in the Shore Capital Group Employee Benefit Trust.

**Analysis of Changes in Net Funds – Group**

| | As at 1 January 2007 £'000 | Cashflows £'000 | **As at 31 December 2007 £'000** |
|---|---|---|---|
| Cash at bank and in hand | 8,332 | 8,411 | **16,743** |
| Overdraft | (9) | (347) | **(356)** |
| | 8,323 | 8,064 | **16,387** |

**Analysis of Changes in Net Funds – Company**

| | As at 1 January 2007 £'000 | Cashflows £'000 | **As at 31 December 2007 £'000** |
|---|---|---|---|
| Cash at bank and in hand | 1,118 | 901 | **2,019** |
| Overdraft | – | (353) | **(353)** |
| | 1,118 | 548 | **1,666** |

## 19. Trade and Other Payables

| | **Group 2007 £'000** | **Company 2007 £'000** | Group 2006 £'000 | Company 2006 £'000 |
|---|---|---|---|---|
| Trade creditors | **16,880** | **–** | 16,614 | – |
| Other creditors | **7,072** | **1,213** | 3,606 | 2,529 |
| Other taxation and social security | **974** | **64** | 423 | 25 |
| Accruals and deferred income | **2,770** | **116** | 5,448 | 137 |
| | **27,696** | **1,393** | 26,091 | 2,691 |

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

## 20. Borrowings

| | **2007 £'000** | 2006 £'000 |
|---|---|---|
| **Secured borrowings at amortised cost** | | |
| Bank overdrafts | **356** | 9 |
| Bank loans | **19,653** | – |
| **Total Borrowings** | **20,009** | 9 |
| | | |
| Amount Due for settlement within 12 months | **556** | 9 |
| Amount Due for settlement after 12 months | **19,453** | – |

## 20. Borrowings continued

| | Multi currency loan facility £'000 | Amortising USD loan facility £'000 | GBP multi-option facility £'000 | Total £'000 |
|---|---|---|---|---|
| **31 December 2007** | | | | |
| Bank overdraft | – | – | 356 | 356 |
| Bank loans | 11,131* | 8,522 | – | 19,653 |
| | **11,131** | **8,522** | **356** | **20,009** |

* currently drawn in Japanese Yen

| | GBP multi-option facility £'000 | Total £'000 |
|---|---|---|
| 31 December 2006 | | |
| Bank overdraft | 9 | 9 |
| | 9 | 9 |

In respect of the multi currency loan facility, the Group deposits as security certain of its bull positions and holdings and cash balances. As at 31 December 2007, these had a carrying value of £21,373,000 (2006: Nil).

The GBP multi-option facility is secured by a floating charge over the assets of the Group's stockbroking subsidiary.

| | **2007 %** | 2006 % |
|---|---|---|
| Bank overdrafts | **6.76** | 5.89 |
| Bank loans | **2.51** | – |

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

(i) Bank overdrafts are repayable on demand. The average effective interest rate on bank overdrafts is approximately 6.76%. (2006 5.89%) per annum and are determined on a base rate plus 1.25% basis.

(ii) The Group has two principal bank loans:

(a) a multi currency loan facility of £10 million at drawdown (2006: nil). The loan was taken out on 9 July 2007 and has a 3 year minimum initial life. The loan is secured by a charge over part of the Group's bull positions and holdings and cash. The loan carries an interest rate at 1.5% above 3 month LIBOR in the relevant currency. There is no material difference between the amortised value of the loan and fair value.

(b) an amortising loan of $16,965,000 (2006: nil) for which the Group has liability for 80%. The loan was taken out on 14 December 2007. Repayment of principal will commence on 30 June 2008, with final repayment on 31 March 2018. The loan is secured by a charge over certain of the Group's fixed assets. The loan carries an interest rate at 1.0% above 3 month USD LIBOR. There is no material difference between the amortised value of the loan and fair value.

**Undrawn Facilities**

As at the year end, £19,644,000 (2006: £9,991,000) was undrawn out of the £20,000,000 multi-option facility available at 31 December 2007 (2006: £10,000,000).

At 31 December 2007, the group had no amounts of undrawn committed loan facilities available (2006: nil) in respect of which all conditions precedent had been met.

# Notes to the Accounts continued

For the financial year ended 31 December 2007

## 21. Provision for Liabilities and Charges

**Group and Company:**

Provision for National Insurance contributions on share options

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| At 1 January | 1,482 | 1,017 |
| (Credit)/charge for the year | (883) | 687 |
| Payments made in the year | (43) | (222) |
| **At 31 December** | 556 | 1,482 |

## 22. Capital Commitments

As at 31 December 2007, there were no amounts that were contracted for but not provided in the financial statements (2006: £nil).

## 23. Called Up Share Capital

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| **Authorised:** | | |
| 625,000,000 ordinary shares of 2p each | 12,500 | 12,500 |

| **Allotted, called up and fully paid:** | 2007 Number of shares | 2006 Number of shares | 2007 £'000 | 2006 £'000 |
|---|---|---|---|---|
| At 1 January | 301,601,469 | 270,389,377 | 6,032 | 5,408 |
| Shares issued in respect of options exercised | 1,293,717 | 4,061,298 | 26 | 81 |
| Shares issued for cash | – | 27,150,794 | – | 543 |
| **At 31 December** | 302,895,186 | 301,601,469 | 6,058 | 6,032 |

During the year to 31 December 2007, there were 1,293,717 (2006: 4,061,298) ordinary shares of 2p each that were issued as the result of the exercise by employees of share options granted in prior years under the terms of the Share Option Plan.

During the year to 31 December 2007, the company repurchased 2,971,797 (2006: nil) ordinary shares of 2p each at an average price of 40.0p. The shares repurchased represent 0.98% of the company's called-up share capital and are being held in its treasury. The total cost in the year, including related charges, was £1,195,000. See also Note 25. The shares were repurchased to enhance the value of the remaining shares.

At the year end, the directors had remaining authority, under the shareholders' resolution of 27 April 2007, to purchase 42,312,664 ordinary shares of the company. This authority expires on the earlier of the next annual general meeting and 26 July 2008.

## 24. Financial Instruments

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

The Group's financial instruments comprise, for the purpose of IAS32, cash and liquid resources, trade and other receivables and trade and other payables, bull and bear positions in equities, financial assets designated at fair value and derivative instruments.

The main risks arising from the Group's financial instruments are market risk, currency risk, interest rate risk, liquidity 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:

| Net gains or losses arising from dealings in financial instruments<br>**2007** | Designated at fair value £'000 | Held for trading £'000 | Available for sale securities £'000 | Total £'000 |
|---|---|---|---|---|
| Equities | **482** | **11,502** | **–** | **11,984** |
| Debt | **729** | **–** | **–** | **729** |
| Alternative assets | **(14)** | **–** | **85** | **71** |
| | **1,197** | **11,502** | **85** | **12,784** |
| 2006 | | | | |
| Equities | (227) | 7,221 | – | 6,994 |
| Debt | 360 | – | – | 360 |
| Alternative assets | 10,783 | – | – | 10,783 |
| | 10,916 | 7,221 | – | 18,137 |

### 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 in a broad range of smaller UK companies, listed either on AIM or the Official list. 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 16 for bull positions and in the consolidated balance sheet for bear positions.

Other holdings comprise seeding of own Funds that have been launched (details of which are set out in the Chairman's statement on pages 4 to 9), and other liquid hedge funds.

Holdings in commercial paper are primarily subject to credit risk (see note 24.d).

The Group has not 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.

# Notes to the Accounts continued

For the financial year ended 31 December 2007

## 24. Financial Instruments continued

### b) Currency Risk

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

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Held in United States dollars | **4,228** | 10,409 |
| Held in Euros | **2,966** | 1,155 |
| | **7,194** | 11,564 |

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

The amount taken to the Income Statement during the year was a credit of £272,000 (2006: credit of £1,002,000).

As at the year end the fair value of forward contracts that were hedging bull positions and other holdings was a net liability of £174,000 (2006: £380,000 asset). The related notional contracts as at 31 December 2007 were £4,441,000 (2006: £10,081,000).

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

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

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

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Euro £'000 | JPY £'000 | Euro £'000 | JPY £'000 |
| 5% Stronger Against GBP | **153** | **(586)** | (2) | – |
| 5% Weaker Against GBP | **(138)** | **530** | 2 | – |

### c) Interest Rate Risk

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

The interest bearing financial assets and liabilities of the Group comprise cash and cash equivalents, bank overdrafts and bank borrowings as shown in the consolidated balance sheet. Cash and cash equivalents receive, and bank overdrafts pay, interest at floating rates linked to either bank base rates or money market rates. The group has a £20m overdraft facility renewable annually. Borrowings pay interest at rates linked to money market rates for the relevant currency (see note 20).

*Interest rate sensitivity analysis*

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

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

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| +100 basis point movement in interest rates | **113** | 63 |
| As percentage of total shareholders' equity | **0.15%** | 0.08% |

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

## 24. Financial Instruments continued

### d) Credit Risk

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

The 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 trading in equities. The Group's policy is to deal with credit worthy counterparties and the majority are financial institutions. As a result, the counterparties are generally subject to certain minimum capital requirements which serves to limit the credit risk to the Group.

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

| | 2007 £'000 |
|---|---|
| TD Waterhouse | 6,040 |
| Pershing Securities | 5,236 |
| Walker Crips Weddle Beck | 2,527 |
| London Clearing House | 2,411 |
| WH Ireland | 1,247 |

| | 2006 £'000 |
|---|---|
| Pershing Securities | 4,487 |
| TD Waterhouse | 2,370 |
| Charles Stanley | 2,237 |
| London Clearing House | 1,722 |
| WH Ireland | 1,459 |

### e) Liquidity Risk

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

*Maturity profile of financial liabilities*

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

| 2007 | Repayable on demand £'000 | Due within 3 months £'000 | Due between 3 months and 12 months £'000 | Due between 1 year and 5 years £'000 | Due after 5 years £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Bear positions | – | 2,388 | – | – | – | 2,388 |
| Trade payables | – | 16,880 | – | – | – | 16,880 |
| Derivatives | – | 202 | – | – | – | 202 |
| Bank loans and overdrafts | 356 | 101 | 576 | 13,059 | 8,319 | 22,411 |
| Other liabilities | – | 5,493 | 1,579 | – | – | 7,072 |
| Accruals | – | 2,770 | – | – | – | 2,770 |
| | 356 | 27,834 | 2,155 | 13,059 | 8,319 | 51,723 |

# Notes to the Accounts continued

For the financial year ended 31 December 2007

## 24. Financial Instruments continued

### e) Liquidity Risk continued

2006

| | Repayable on demand £'000 | Due within 3 months £'000 | Due between 3 months and 12 months £'000 | Due between 1 year and 5 years £'000 | Due after 5 years £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Bear positions | – | 2,974 | – | – | – | 2,974 |
| Trade payables | – | 16,614 | – | – | – | 16,614 |
| Derivatives | – | 380 | – | – | – | 380 |
| Bank overdrafts | 9 | – | – | – | – | 9 |
| Other liabilities | – | 1,267 | 2,184 | – | – | 3,451 |
| Accruals | – | 5,448 | – | – | – | 5,448 |
| | 9 | 26,683 | 2,184 | – | – | 28,876 |

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

## 25. Events after the balance sheet date

During the period from 1 January 2008 to the date of signing these accounts, the company repurchased 12,952,504 ordinary shares of 2p each to hold in its treasury, at an average price of 33.4p. The total cost in the period was £4,320,000.

Shore Capital Group plc
Bond Street House
14 Clifford Street
London W1S 4JU
www.shorecap.co.uk

Tel:  020 7408 4090
Fax:  020 7408 4091
email: info@shorecap.co.uk

The Atlantic Suite
Ground Floor
The Corn Exchange
Fenwick Street
Liverpool L2 7TP

Tel:  0151 600 3700
Fax:  0151 600 3727

Shore Capital International Ltd
Unter den Linden 32/34
10117 Berlin
Germany

Tel.:  +49 (0)30 204 587 - 0
Fax:  +49 (0)30 204 587 - 187