



**SHORE CAPITAL GROUP LIMITED**



---

**ANNUAL REPORT  
AND ACCOUNTS  
2010**

---

# Contents

	Page
Highlights	1
Corporate Profile	2
Chairman's Statement	4
Board of Directors	12
Senior Management	13
Corporate Governance	14
Directors' Report	16
Statement of Directors' Responsibilities	18
Independent Auditors' Report	19
Consolidated Income Statement	20
Consolidated Statement of Comprehensive Income	21
Consolidated Statement of Financial Position	22
Consolidated Statement of Changes in Equity	23
Consolidated Cash Flow Statement	25
Notes to the Financial Statements	26
Notice of Annual General Meeting	54
Explanation of Special Business	56
Officers and Professional Advisers	57

# Highlights

*Founded in 1985, the Group celebrated its 25th anniversary in 2010*

---

## Financial Highlights\*

- Strong performance in 2010, despite tougher conditions than in the recovery year of 2009
- Profit from operating businesses of £10.6m (2009: £11.0m). Pre-tax profit of £8.4m (2009: £12.5m)
- Comprehensive earnings per share of 2.00p (2009: 3.31p, included one-off gain on PBL shares held)
- Dividend per share of 0.625p (2009: 0.625p per share); total for 2010 of 0.875p (2009: 0.875p per share)

## Operational Highlights

- Continuing strong market-making performance, leveraging leading small cap market-making position
- Excellent performance from Puma VCTs, new VCT launched
- Successful diversification of the ECM business into the resources sector, both oil and gas and mining
- Major gain at St Peter Port from flotation of Brazilian oil explorer HRT (current market cap over US\$5bn)
- New principal finance investment in German telecoms business in 2011

\* excluding the contribution from PBL's business, which is no longer part of the continuing operations of the Group

---

# Corporate Profile

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

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

## Equity Capital Markets

- specialist sales to, and research for, institutions in selected sectors;
- corporate finance advice, including fund-raising, sponsorship on the London Stock Exchange, acting as nomad on AIM, takeovers and mergers;
- smaller company market-making. Shore Capital makes markets in over 1,200 stocks and is the second largest market-maker on AIM by both value and volume of trades.

## Asset Management

- growth capital, both quoted and unquoted, including pre-IPO finance;
- residential, mixed use and commercial property in Germany;
- diversified portfolios of hedge and other funds, principally through an open ended fund of funds;
- specialist equity long/short hedge fund;
- structured vehicle investing in UK hotel property;
- innovative venture capital trusts ("VCTs") providing mezzanine capital to solid companies;

- advisory and discretionary fund management for high net worth individuals and entrepreneurs, based on model portfolios in both equities and funds, designed either for income or for growth;

- aggregate funds under management are currently approximately £1.3 billion.

## Group overview

Shore Capital Group is independently owned with its management as substantial shareholders. Its shares are listed on the AIM. Shore Capital Stockbrokers Limited, Shore Capital and Corporate Limited and Shore Capital Limited are each 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 (we celebrated our 25th anniversary last year) and has become one of London's leading independent investment banking boutiques. Since inception we have had a close affinity with entrepreneurial clients, whether individuals or businesses, and in investing in entrepreneurial businesses.

The emphasis throughout the Group is on a professional and personalised service and we seek to offer our expertise both responsively and pro-actively. We believe that our greatest

asset is the experience, vigour and commitment of our people. Our management and employees own a significant proportion of the business, and are committed to success.

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

## Our Services – an overview

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

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

### Equity Capital Markets

#### Institutional stockbroking and market-making

- highly ranked research-based institutional stockbroking, focusing on selected sectors where we have strong research expertise, corporate clients, fast growing companies and special situations;

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

#### Corporate finance advice and deal structuring

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

#### Private Client Stockbroking

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

#### 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.

#### Asset Management

##### Commercial Property and Hotels

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

##### Growth capital – St Peter Port and Puma VCTs

- specialist fund, St Peter Port, dedicated to development capital opportunities, pre-IPO and other defined exit investments;
- seven Puma VCTs established between 2005–11. Focus on providing mezzanine finance to growing businesses on attractive terms;
- adding another dimension to our commitment to developing companies;
- investing in companies with the potential for rapid growth, in both the ‘old’ and ‘new’ economies;
- providing funding and management advice to companies preparing to float in the future.

##### Hedge Funds and Alternative Assets

- track record of consistent performance with own portfolio of hedge funds;

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

#### Shore Capital International

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

#### Principal Finance

##### Spectrum Investments Limited (“Spectrum”)

Together with other investors, we have formed a new company, Spectrum, which is acquiring, subject to completion, a controlling interest (58 per cent) in DBD Deutsche Broadband Dienste GmbH (“DBD”), a German telecoms business. Shore Capital has a majority interest in Spectrum.

DBD holds microwave radio spectrum licences with coverage across Germany which it acquired in licence auctions and has established an extensive national network of towers, transmitters and control equipment. By exploiting Israeli-developed radio technology from Spectrum, DBD plans to broaden its offering by adding telecom services to business customers, including mobile operators to assist them in providing 4G data services to their own customers more efficiently and reliably.

# Chairman's Statement

## Introduction

I am pleased to report our results for 2010. Following a year of recovery by securities markets in 2009 from which we benefited strongly, 2010 saw a return to volatile markets. Investor sentiment became more negative during much of the year, including the hiatus period of the election in the UK and the sovereign debt crisis in Europe. This made business conditions more difficult, particularly affecting primary market activity. We are less dependent upon this than some of our competitors and our diverse business mix helped us achieve another good financial performance for the Group. In particular, both our operating divisions, Equity Capital Markets ("ECM") and Asset Management, largely maintained their performance in 2010 compared to 2009.

We undertook a corporate re-organisation of the Group in March 2010 and these results cover the period for the new holding company following the corporate re-organisation to 31 December 2010, together with the earlier period during which Puma Brandenburg Limited ("PBL" or "Puma Brandenburg") was part of the Group. However, as a consequence of the de-merger we have presented, in accordance with accounting rules, the contribution from Puma Brandenburg separately from the continuing operations of the Group.

## Financial Review

The table opposite gives an analysis of the results of the ongoing group for the year. It is proforma as it excludes any income or expenditure relating to Puma Brandenburg which has been de-

merged. This table splits the results of the operating activities and movements in the value of its investments and principal finance holdings (balance sheet holdings), and is provided in addition to the IFRS format shown on page 21.

### Operating Businesses

Excluding PBL which was de-merged on 26 March 2010, pro-forma operating revenue for the year was £37.3m (2009: £39.3m), a decrease of 5.1 per cent. This was achieved despite a tougher environment for both primary and secondary agency stockbroking and once again demonstrates the benefit of having diversified income streams.

Including the net loss from balance sheet holdings, total revenue for the Group was £35.5m (2009: £42.4m). While most of our balance sheet holdings achieved gains in the year, this was offset by a revaluation of our carried interest in Puma Hotels to reflect the carrying value of interest rate swaps under IFRS. (The loss on balance sheet activities reduces reported revenue).

Administrative expenses were £26.8m (2009: £28.4m), a decrease of 5.6 per cent. As a result, the operating profit for the year of £10.6m (2009: £11.0m) was largely unchanged from last year.

Interest income was £0.3m (2009: £0.6m), whilst finance costs were £0.6m (2009: £0.7m), both changes reflecting the lower average interest rates during 2010.

As a result, the profit before tax from operations was £10.2m (2009: £10.8m), representing a net margin before tax of

27.3 per cent (2009: 27.6 per cent). Including the net loss from balance sheet holdings, the profit before tax was £8.4m (2009 proforma: £12.5m; 2009 including PBL: £75.7m).

Revenue from ECM was £26.3m (2009: £27.6m), with a net margin of 29.1 per cent (2009: 32.0 per cent). Revenue from Asset Management was £10.0m (2009: £10.4m) with a net margin of 41.4 per cent (2009: 50.6 per cent).

### Balance Sheet Holdings

We have various balance sheet holdings held as investments. One consequence of this is that movements in value prior to realisation are taken through reserves rather than the income statement. Thus revenue in the Consolidated Income Statement includes a loss on balance sheet holdings of £1.8m (2009: gain of £1.7m) before tax but the Statement of Comprehensive Income shows net gains taken to reserves on revaluation of investments of £0.4m (2009: £0.02m). Consolidating the two, our balance sheet holdings therefore generated a net loss of £1.4m (2009: net gain of £1.7m).

### Contribution from PBL

Puma Brandenburg generated £1.0m after tax in the period during which it was part of the Group. As a consequence of the de-merger we have presented, in accordance with accounting rules, the contribution from Puma Brandenburg separately from the continuing operations of the Group.

### Basic Earnings per Share

The Group generated earnings per share of 1.83p (2009 pro forma: 3.30p; 2009 including PBL: 27.96p).

*“We have had a good start to 2011, particularly in our ECM business. The market-making division continues to perform well and corporate activity has increased, partly as a result of our move into the resources sector. The asset management business has been enhanced by the strong performance of the Puma VCTs, Puma Sphera and St Peter Port Capital.”*

*Analysis of the Proforma Consolidated Statement of Comprehensive Income (excluding PBL)*

**Twelve months ended 31 December**

	<b>Operating Businesses 2010 £'000</b>	Operating Businesses 2009 £'000	<b>Balance sheet holdings 2010 £'000</b>	Balance sheet holdings Restated See note 8 2009 £'000	<b>Total 2010 £'000</b>	Total Restated See note 8 2009 £'000
<b>Revenue</b>	<b>37,308</b>	39,306	<b>(1,825)</b>	3,123	<b>35,483</b>	42,429
Administrative expenditure	<b>(26,755)</b>	(28,352)	–	(1,444)	<b>(26,755)</b>	(29,796)
<b>Operating profit/(loss)</b>	<b>10,553</b>	10,954	<b>(1,825)</b>	1,679	<b>8,728</b>	12,633
Interest income	<b>284</b>	554	–	–	<b>284</b>	554
Finance costs	<b>(643)</b>	(659)	–	–	<b>(643)</b>	(659)
	<b>(359)</b>	(105)	–	–	<b>(359)</b>	(105)
<b>Profit/(loss) for the year</b>						
<b>before taxation</b>	<b>10,194</b>	10,849	<b>(1,825)</b>	1,679	<b>8,369</b>	12,528
Gains recognised in						
Statement of Comprehensive Income	–	–	<b>385</b>	16	<b>385</b>	16
Other amounts recognised in						
Statement of Comprehensive Income	<b>41</b>	146	–	–	<b>41</b>	146
<b>Comprehensive profit/(loss)</b>						
<b>for the year before taxation</b>	<b>10,235</b>	10,995	<b>(1,440)</b>	(1,695)	<b>8,795</b>	12,690
Comprehensive taxation	<b>(2,703)</b>	(2,865)	<b>735</b>	654	<b>(1,968)</b>	(2,211)
<b>Comprehensive profit/(loss)</b>						
<b>for the year after taxation</b>	<b>7,532</b>	8,130	<b>(705)</b>	2,349	<b>6,827</b>	10,479
<b>Attributable to:</b>						
Equity holders of the parent	<b>5,634</b>	6,156	<b>(705)</b>	2,349	<b>4,929</b>	8,505
Non controlling interests	<b>1,898</b>	1,974	–	–	<b>1,898</b>	1,974
	<b>7,532</b>	8,130	<b>(705)</b>	2,349	<b>6,827</b>	10,479
<b>Comprehensive earnings per share</b>						
Basic	<b>2.28p</b>	2.40p	<b>(0.28)p</b>	0.91p	<b>2.00p</b>	3.31p
Diluted	<b>2.21p</b>	2.34p	<b>(0.28)p</b>	0.89p	<b>1.93p</b>	3.23p

# Chairman's Statement continued

## Comprehensive Income per Share

The Group's Comprehensive Income generated earnings per share of 2.00p per share (2009 pro forma: 3.31p; 2009 including PBL: 27.99p).

## Staff Costs

Staff costs, including incentive costs, were 41.7 per cent of total revenue (2009: 42.9 per cent). For both years, total revenue excludes revenue from PBL as it was de-merged.

## Liquidity

We extended our medium term evergreen bank facility by 1 year so that it now runs to June 2013 with a minimum 2 year notice period. The facility size is £20m, of which £15m is committed and was drawn down at the year end. Separately, our £20m working capital facility (which was unutilised at the year end) was also extended for a further year.

As at the balance sheet date, available liquidity was £47.6m (2009: £61.6m), comprising £44.2m (2009: £59.4m) of cash and £3.4m (2009: £1.6m) of gilts and bonds. This demonstrates the Group's flexibility to undertake a range of transactions as opportunities arise. The reduction in liquidity during the year reflects changes in our balance sheet, described below, principally as a result of the de-merger.

## Share Buy-backs and Cancellations

During the year, we continued the programme of buy-backs begun in December 2007. Over the year, we bought in a further 9,531,054 shares at a cost of £3.4m in aggregate. The purchases were carried out at various times throughout the year, both prior to the de-merger, at which time our shares included ownership of PBL, and post the de-merger, with prices that reflect this.

## Balance Sheet

Our balance sheet remains strong.

The main change reflects the de-merger of PBL as a result of which £69.9m of assets were transferred to the new holding company, Puma Brandenburg Holdings Limited, which our shareholders now own directly.

Total equity at the year end was £69.8m (2009 pro-forma: £74.9m; 2009 including PBL: £141.5m). The movement comprised the comprehensive retained profit for the year of £6.8m less a further £4.75m which the Group invested in PBL shortly before it was de merged, dividends paid of £3.4m (including those to minority interests), and £3.4m which the Group spent in the year buying back its own shares.

At the year end we held £3.4m of gilts and bonds, £1.9m net in quoted equities and £0.8m net in the Lily Partnership. After allowing for £15.0m of borrowings on the Group's bank facilities, net cash was £29.2m. We held a further £14.5m in the various Puma Funds and £1.3m in other holdings, which were unquoted. The remainder of the balance sheet was £18.7m net, of which the largest item was £19.8m of net market debtors in our stockbroking subsidiary.

## Net Asset Value per Share

Net asset value per share ("NAV") at the year end was 26.2p. Comparisons of NAV with previous years are complicated by the de-merger of PBL. On a proforma basis (ie excluding PBL), NAV in 2009 was 27.9p per share; but this figure was struck

prior to the £4.75m investment in PBL and the £3.4m of buy-backs described above. On a reported basis, including PBL's balance sheet, NAV was 53.1p per share in 2009.

## Dividend

We propose a final dividend of 0.625p per share (2009: 0.625p). In addition to the interim dividend of 0.25p (2009: 0.25p) per share, this gives a total dividend of 0.875p per share (2009: 0.875p per share). The dividend will be paid on Tuesday 12 April, 2011 to shareholders on the register as at 1 April 2011.

Looking ahead, dividend policy will be reviewed by the Directors in light of the changing fiscal environment.



We recently purchased 58 per cent of DBD, a German telecoms business

*“We have been particularly successful in making good use of our office in Edinburgh to hold investor presentations by major companies. A substantial and growing number of FTSE 100 and mid cap companies have used this facility, which is popular both with them and with the Scottish investment community.”*

## Operating Review

The following operating review reports on our two main areas of focus, namely Equity Capital Markets and Alternative Asset Class Fund Management and Principal Finance.

## Equity Capital Markets

### Overview

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

The division performed well given the more difficult environment in 2010, with turnover down 4.9 per cent on 2009. Market-making did particularly well, growing its revenue by 5.8 per cent, whilst secondary commission/ direct commission from institutions held up well given the climate. Primary business was much tougher but we are fortunate not to have to rely upon it heavily and our Corporate Finance team again made a profitable contribution to the division.

We were also delighted to give more responsibility to some strong managerial talent developed in the division. During the year we promoted to head their respective departments two directors, both of whom joined in 2004, Dru Danford as Head of Corporate Finance and Malachy McEntyre, as Head of Sales.

In the autumn we recruited a team specialising in the oil and gas and mining sectors, led by Jerry Keen who joined us as a director in Corporate Broking. We already had a very strong presence in market-making in these sectors and many of our Corporate Finance team already had extensive experience of advising resources companies. We now have an analyst in each of oil and gas and mining and are winning corporate clients in both

sectors. We have also started to conduct significant primary business in these resources sectors.

We have been particularly successful in making good use of our office in Edinburgh to hold investor presentations by major companies. A substantial and growing number of FTSE 100 and mid cap companies have used this facility, which is popular both with them and with the Scottish investment community.

### Research and Sales

The environment for institutional stockbroking has become more challenging because of market changes. In particular, more business is now executed without intermediaries. In addition, during 2010 hedge funds were less active than in most of the preceding decade, both because of reduced funds (although there has been a strong recovery by some) and reduced credit/leveraged trading.

In this changing environment, our team did well to hold revenue at similar levels to 2009. This reflects the strength of our franchise and the quality of our product. This is shown in the continued growth in direct payments we receive from institutional clients under commission sharing arrangements for our research and sales support to their fund management.

### Market-making

Our market-making activity has continued its strong positive progress. In the second half of the year volumes were strong in some sectors and for the year as a whole with our growing market share we continued the strong performance of 2009. We also continued to benefit from a relatively clean inventory position, which makes it much easier to concentrate upon earning a profit from providing a high quality service to our clients.

We have continued to pioneer new services, most notably in being among the first market-makers in London to participate in the retail bond market, launched by the LSE in February 2010. We have just participated as an authorised distributor in the offering of Lloyds TSB Bank's retail bonds and we hope to be involved in other major offerings currently being planned. We have also taken up, and are now active in, a number of mid cap stocks.

The performance of market-making shows the strength of our franchise in this area as well as being a tribute to the team. We deal direct with the major retail brokers as a Retail Service Provider through a broad range of electronic links and with the institutions active in small cap. London Stock Exchange statistics show us as the second largest market-maker on AIM by both value and volume of trades and the third largest on the London Stock Exchange by number of stocks covered.

### Corporate Finance

The environment for mid and small cap equities remained very tough and IPOs continued to be off the agenda for virtually all types of company. Despite this, our Corporate Finance team completed several notable transactions during the year including working on two of the few flotations of the year, J K Wohnbau (a house builder in Munich) in the second half and Equatorial Palm Oil in the first half. We also acted for the new shareholders of West Ham United in their acquisition of a controlling stake, for D P Property Europe on the offer for it and for Coffeeheaven on the offer by Whitbread.

In total; we worked on 10 placings conducted during the year, on 6 takeovers and on a number of other transactions; we are retained adviser to some 50 companies, including a number

of recent appointments. As a result, the division continued to make a profitable contribution to the business.

Since the year end, we have concluded several significant transactions including acting for a consortium of major banks on their offer for Cattles and a significant fund raising for Aminex, an oil exploration company.

The current stronger market in resource related stocks, together with other marketing initiatives have generated a healthier pipeline. We have seen a stronger level of primary activity in 2011 to date than last year.

## Alternative Asset Class Fund Management and Principal Finance

### Overview

The revenue of our alternative asset class fund management business fell 4.3 per cent compared to 2009, primarily because of changes in the fee arrangements for Puma Brandenburg Limited. Overall fund management performance, discussed in more detail below, was in keeping with our absolute return philosophy of seeking to preserve cash when markets become difficult and exploiting changes in sentiment. The asset management business has been enhanced by the strong performance of the Puma VCTs, Puma Sphera and St Peter Port Capital. We believe that the asset management business is well-positioned to grow organically and by acquisition.

### Fund performance

The table opposite summarises the performance of the various funds we run, both absolute and relative return, for the calendar year 2010 where applicable and since inception.

### Track Record

As in previous years, we have calculated



*St Peter Port Capital made a major gain on HRT, a Brazilian oil explorer*

the track record of our alternative asset class funds and structured finance since our first launch, Puma I, in May 1996. Over this 14 year period, we calculate that the net return to investors from a composite of the vehicles was 14.9 per cent p.a.

### Funds Under Management

Funds under management as at 31 December 2010 were £1.31 billion (\$2.06 billion), compared to the £1.33 billion (\$2.15 billion) at 31 December 2009.

### Puma Venture Capital Trusts

To date we have successfully launched six Puma VCTs and are currently raising Puma VII. Each has a focus on providing secured loans to well-run companies finding it hard to raise finance on attractive terms from banks. They are each limited life vehicles, aiming to distribute to their investors the initial capital and returns after five years.

The first two of our VCTs which were raised in 2005 have passed their five year period and are in the process of completing the return of their capital to their shareholders. The great part of their assets have been successfully liquidated and they have so far returned 95p per share in cash to their investors (which relates to a net investment cost of 60p per share). They have approximately 8p of assets yet to distribute, the highest total return of any limited life VCT raised in that year. Puma VCTs III and IV are six months away from passing their liquidation resolutions and have also returned significant cash: 47 pence per share to date. They too are amongst the top of their peer group. Puma VCT V is the top performing VCT of all those raised in 2007, whilst Puma High Income (launched in 2010) has started well.

We have launched the new VCT in this tax year and hope to capitalise on this strong track record.

*“In addition to the Morningstar 5 star rating reported at our 2009 final results, PARF has also been awarded 3 crowns by Trustnet and short-listed by Hedge Fund Manager magazine (HFM Week) as one of the best multi-strategy fund of funds in the under \$250m category.”*

#### St Peter Port Capital

St Peter Port Capital (“St Peter Port”) was launched in April 2007 as a pre-IPO fund but has since widened its investment mandate to include providing bridging finance ahead of trade sales and other opportunistic investing in development capital situations. As at 31 December 2010 it had investments in 42 investee companies and its NAV per share increased 16.9% per cent over the year.

St Peter Port’s portfolio is weighted towards stocks exposed to commodities (oil and gas, mining and resources). The climate, both in the UK and in other relevant markets such as Canada, is currently conducive to listings of these

kinds of stocks and as a result St Peter Port has benefited. It has had several significant successes including a very large gain from Brazilian oil explorer. HRT Participacoes em Petroleo (“HRT”), which raised US\$1.5bn on flotation in October 2010 and now has a capitalisation of over US\$5bn. Many of the holdings in St Peter Port’s portfolio which remain unquoted also have considerable upside potential, being high risk/high reward companies. The team are now focused on harvesting the fruits of the investments made.

#### Puma Absolute Return Fund (“PARF”)

Following a very strong performance in 2009, in 2010 PARF had a resilient

performance in the face of volatile markets. Over the year it gained 3.9 per cent, which compared to 4.9 per cent for the BarclayHedge Fund of Hedge Funds Index (the relevant benchmark).

In addition to the Morningstar 5 star rating reported at our 2009 final results, PARF has also been awarded 3 crowns by Trustnet and short-listed by Hedge Fund Manager magazine (HFM Week) as one of the best multi-strategy fund of funds in the under \$250m category.

#### Puma Sphera

Sphera had another very strong year despite the volatile markets. After a slow first half, it picked up strongly to gain 15.7 per cent for the year; its IRR since

### Returns from Absolute Return and Model Portfolio Products Performance in 2010 and since Inception (net of management and performance fees)

Absolute Return Products	Inception Date	Asset type	Performance in 2010 %	IRR to Date % p.a.
Puma Absolute Return Fund	May 2003	Fund of hedge funds	3.9	6.2
Puma VCTs I and II <sup>(1)</sup>	April/May 2005	VCT	(0.4)	1.1/12.2 <sup>(3)</sup> pre/post tax
Puma VCTs III and IV <sup>(1)</sup>	April/May 2006	VCT	3.3	(0.1)/11.9 <sup>(3)</sup> pre/post tax
Puma VCT V	April/May 2008	VCT	1.9	2.8/17.6 <sup>(3)</sup> pre/post tax
Puma High Income VCT	April/May 2010	VCT	(1.4)	(1.5)/44.3 <sup>(3)</sup> pre/post tax
Puma Sphera	Dec 2006	Equity long/short	15.7	15.0
Puma Hotels plc <sup>(2)</sup>	July 2004	Hotels	4.1	12.6
St Peter Port Capital <sup>(2)</sup>	April 2007	Growth Capital	16.9	3.9

<sup>(1)</sup> Weighted composite of VCTs <sup>(2)</sup> Based on last published Net Asset Values

<sup>(3)</sup> Post tax returns include the effect of the tax relief gained upon initial investment

Model Portfolios	Inception Date	Asset type	Performance in 2010 %	IRR to Date % p.a.
Growth Portfolio	Feb 2002	Equities, bonds and unit trusts	18.8	6.0
Balanced Portfolio	Feb 2002	Equities, bonds and unit trusts	21.5	7.8
Multi-manager Growth Portfolio	July 2003	Unit trusts	17.9	12.0
Multi-manager Income Portfolio	July 2004	Unit trusts	9.3	6.4
AIM Inheritance Tax	July 2005	Equities	96.4	19.4

14 year track record	Inception Date	Asset type	Performance in 2010 %	IRR to Date % p.a.
Composite of funds	May 1996	Alternative asset class funds and structured finance	n/a	14.9

inception is 15.0 per cent per annum. Relative to the Dow Jones Credit Suisse equity long/short index which gained 11.0 per cent in the year, the fund profited from the manager taking a defensive stance in the first half and clever implementation of its long/short strategy. Sphera has also been awarded 3 crowns by Trustnet and short-listed by HFM Week as one of the best equity long/short funds in the under \$500m category.

## Private Client Investment Management

Shore Capital's track record for private client investment management remains robust. Our balanced portfolio has out-performed its benchmark by 23.4 per cent from launch in February 2002 to 31 December 2010. In 2010, it gained 21.5 per cent, under-performing its benchmark by 8.0 per cent. Over the same 9 years to 31 December 2010 the growth portfolio also out-performed its benchmark by 6.1 per cent. In 2010 it out-performed the benchmark by 4.7 per cent, gaining 18.8 per cent.

Our "long only" range of products based on picking "best of breed" long only funds also had a good year. The growth orientated fund of funds has achieved 134.8 per cent growth since launch on 30 June 2003 to 31 December 2010 and out-performed its benchmark by 26.6 per cent. In 2010 it out-performed its benchmark by 3.9 per cent, gaining 17.9 per cent. The income-orientated fund of funds has achieved 49.5 per cent since launch at 30 June 2004 to 31 December 2010, but under-performed its benchmark by 3.9 per cent. In 2010 it gained 9.3 per cent, under-performing by 1.9 per cent.

## Puma Brandenburg Limited ("PBL")

Following the de-merger of 26 March 2010, PBL is now a subsidiary of Puma Brandenburg Holdings Limited ("PBHL"), whose shares are listed on the

Luxembourg Stock Exchange. Shore Capital continues to act as the property investment adviser to PBL.

PBHL reported good results for the 6 months ended 30 September 2010 with further lettings at its shopping centre in Zweibruecken, on which the team continues to focus together with lease renewals. The Berlin residential portfolio has seen rent increases and the very low structural vacancy rates have been maintained. Sales of apartments at the Mendelsohn estate in Berlin have continued with strong profit margins and a pipeline of further sales demonstrating the success of the privatisation program. PBHL is due to publish a quarterly report to the market shortly.

Following a deep recession in 2009, Germany has bounced back, growing 3.6 per cent in the year to December 2010. The coming year is expected to build on this success and German real estate, especially residential properties in the top locations, is becoming increasingly popular with institutional and foreign investors.

We remain focused on value enhancing asset management initiatives and remain convinced of the long term potential of real estate, particularly residential, in Germany.

## Puma Hotels

Puma Hotels owns a portfolio of 20 UK four star hotel properties, mostly freehold, which were leased to a strong tenant (Barceló Group) on an inflation-linked 45 year lease in August 2007. Puma Hotels also benefits from a strong development pipeline for add-on facilities to hotels on land already owned, which can therefore be delivered at an attractive cost per room.

The property subject to the leases was professionally valued by Colliers Robert Barry as at 31 December 2010 at

£455.6m, a 1 per cent decline on the value as at 31 December 2009. The valuation reflected the difficult hotel sector but also the quality of the assets. The rent from Barceló increased to £31m in September 2010.

Our property management team has been active and successfully secured significant new planning permissions. These are for a new 107 bedroom lodge hotel in Harrogate and 34 additional bedrooms at the Majestic, Harrogate, making the total permitted at this prime hotel an additional 116 rooms. Edinburgh Council has granted permission for a further 25 bedrooms for the Carlton, a prime location city centre hotel, making the total permitted at this hotel an additional 58 bedrooms. At Brighton we have secured planning consent for 42 additional bedrooms, conference space, bar and restaurant at the Brighton Old Ship Hotel, in total a 3,000 sq m development at this waterfront, city centre hotel. Finally we gained permission for an extension to the internal space of an attractive residential property in Bath which was then sold.

## Balance Sheet Holdings

Our balance sheet holdings include positions in funds we have established and other medium term investments. As such, their value will be affected by overall market movements and by specific events affecting the individual investments. In the year under review these balance sheet investments contributed an overall loss of £1.8 million. This was primarily the result of a revaluation of our carried interest in Puma Hotels, which is held within the asset management division, to reflect the carrying value of interest rate swaps under IFRS. The remaining balance sheet holdings generated net gains for the year.

*“We benefit from a diverse range of business streams and a strong balance sheet which gives us the flexibility to be able to undertake acquisition opportunities when they arise. We are particularly excited by the recent purchase of 58 per cent of DBD by our new subsidiary, Spectrum Investments.”*

### **Investment in German Telecoms Business**

We have recently announced a new investment of €2.885m to take a controlling interest in Spectrum Investments Limited (“Spectrum”). Spectrum has been formed in 2011 to acquire a 58 per cent interest in DBD Deutsche Broadband Dienste GmbH (“DBD”), a German telecoms business. We are backing a management team of Israeli entrepreneurs who are co-founding Spectrum and other investors in Spectrum include additional specialists in telecommunications. Spectrum plans to exploit Israeli-developed radio technology to expand the use of this spectrum. The aim is to provide services which would enable mobile operators to supply 4G data services to their customers more efficiently and reliably. This builds on our existing operation in Germany, where we manage a substantial property business.

### **Employees and Board Change**

I should like to thank our employees for their commitment and hard work during

the year. In another volatile year for the investment markets, they are to be congratulated on achieving strong operational profitability in both ECM and Asset Management.

Graham Shore is stepping down from the Group Board at the end of this month and reducing his time commitment to the business. This will involve giving up his role as Group Managing Director and general managerial responsibilities. However, he will continue his directorships of St Peter Port Capital and the various Puma VCTs as well as to concentrate on Shore Capital’s new investment in German telecommunications. He will also continue as non-executive Chairman of Shore Capital’s corporate finance business.

Graham joined me in 1990 a few years after I had established the business when he gave up his partnership in Touche Ross. Over this 20 year period he has put in enormous effort and focus in helping to build up the Group and I would like to thank him on behalf of the management and shareholders for this contribution.

### **Current Trading and Prospects**

We have had a good start to 2011, particularly in our ECM business. The market-making division continues to perform well and corporate activity has increased, partly as a result of our move into the resources sector. The asset management business has been enhanced by the strong performance of the Puma VCTs, Puma Sphera and St Peter Port Capital.

We benefit from a diverse range of business streams and a strong balance sheet which gives us the flexibility to be able to undertake acquisition opportunities when they arise. We are particularly excited by the recent purchase of 58 per cent of DBD by our new subsidiary, Spectrum Investments.

**Howard P Shore**  
Executive Chairman

22 March 2011

# Board of Directors

## Howard Shore Executive Chairman



Howard Shore, 50, founded Shore Capital in 1985. He began his career in private client discretionary fund management with Grieson Grant & Co (later part of Dresdner Kleinwort Wasserstein). After obtaining a degree in Economics from Cambridge, he worked as a financial futures broker when LIFFE was being established. As Executive Chairman he is responsible for the strategy of the Group. He is also the Chairman of Puma Hotels plc, a director of Puma Brandenburg Holdings Limited and of Spectrum Investments Limited.

## Graham Shore Group Managing Director



Graham Shore, 54, joined Shore Capital in 1990 as Group Managing Director. He was previously a partner in the management consultancy division of Touche Ross (now Deloitte LLP) and responsible for the London practice advising the telecommunications and new media industries. After a degree in PPE from Oxford and a Master's degree in Economics from the LSE, he worked for the Government as an economic adviser including several years undertaking industry studies. His responsibilities include being chairman of Shore Capital and Corporate Limited. He is also a director of St Peter Port Capital Limited, the pre-IPO fund, and each of the Puma VCTs.

## Dr Zvi Marom Non-executive Director



Dr Marom, 56, is founder and CEO of BATM Advanced Communications Limited. A former first lieutenant in the Israeli Navy, he graduated first (with excellence) in electronics from the Naval Academy and first (with excellence) from the Advanced Naval Command Course. He has a post-graduate degree in medicine from the Sackler School of Medicine, Israel and an MSc in industrial electronics. Dr Marom is on the boards of several national and international academic committees for computing and communications. He has close links with Governmental bodies funding research for Israeli high tech companies.

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

## James Rosenwald III Non-executive Director



James Rosenwald, 53, is a co-founder and the managing partner of Dalton Investments, LLC, an asset management company. He has more than twenty years experience of investing in the Pacific Rim. He formerly co-managed Rosenwald, Roditi & Company Ltd. which he founded in 1992 with Nicholas Roditi. James advised a number of Soros Group funds between 1992 and 1998. He commenced his investment career with the Grace Family of the United States at their securities firm Sterling Grace & Co. He is a CFA charter holder and a director of numerous investment funds. He is also a member of the Los Angeles Society of Financial Analysts and the CFA Institute. In addition to securities investments, James has invested in real estate since 1997. He co-founded Beach Front Properties in California in February 1997, Grand River Properties in Shanghai in June 2003 and Dalton REIT 1 GmbH & Co. KG, which in 2005 acquired three investment properties in Berlin. James holds an MBA from New York University and a BA degree from Vassar College. He is a member of the Audit Committee and is Chairman of the Remuneration Committee.

## Christopher Cochran Non-executive Director



Chris Cochran, 43 is managing director of IAG Private Equity Limited. He is a chartered secretary and has 22 years' experience within the Guernsey financial services industry, 18 of which have been focused on private equity fund administration in Guernsey. He has been involved in the establishment of many high profile private equity funds and has held and continues to hold a range of board appointments for both fund management and fund investment companies incorporated in Guernsey and other jurisdictions. He is Chairman of the Audit Committee and Company Secretary.

# Senior Management

## **Simon Fine** Head of Equity Capital Markets



Simon Fine, 46, joined Shore Capital in 2002 as Managing Director of Equity Capital Markets, responsible for all aspects of trading and brokerage as well as the integration of related corporate broking activities. He is the former Managing Director and Co-Head of Pan European Equity Cash Trading at Lehman Brothers. Prior to that, Simon spent the previous 14 years at Dresdner Kleinwort Benson, most recently as Head of Pan European Equity Cash Trading – developing its UK operations into one of the leading players in the UK and German equities.

## **Dr Clive Black** Head of Research



Dr Clive Black, 47, is one of the highest ranked analysts covering the UK food & drug retail sector. He has also been rated No.1 for small & mid-cap food retail research and in 2010 was ranked in the top 5 for all analysts in the UK small & mid-cap arena. Clive holds a Ph.D from The Queen's University of Belfast on the Northern Ireland food industry. He followed this to become Head of Food Policy at the NFU in London before joining Northern Foods plc. He moved into equity research with Charterhouse Tilney in Liverpool where he then became Head of Pan-European Retail research when it was acquired by ING Financial Markets. He joined Shore Capital in 2003 as Head of Research.

## **Eamonn Flanagan** Head of the Liverpool Office



Eamonn Flanagan, 48, is one of the UK's top ten stockbroking analysts in the insurance sector, and was rated first for coverage of companies in this sector in the 2010 Extel survey. After a degree in mathematics, he qualified as an actuary with Royal Insurance where he worked for nine years; he is now a Fellow of the Institute of Actuaries. He moved into stockbroking research with Charterhouse Tilney where he was for nine years when it latterly became ING Financial Markets. He joined Shore Capital in 2003 as Head of the Liverpool office.

## **Rupert Armitage** Head of Stockbroking sales



Rupert Armitage, 46, joined Shore Capital in 1988 after 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.

## **Michael van Messel** Head of Finance and Compliance



Michael van Messel, 46. 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 a Fellow of the Institute of Chartered Accountants and is responsible for all operations including finance and compliance.

## **David Kaye** General Counsel



David Kaye graduated from Oxford University with a degree in law and was called to the Bar in 2000. David practised as a barrister at a leading London set of chambers for five years, specialising in advising on a range of complex commercial legal issues with a particular focus on financial investments and real estate. He joined Shore Capital in January 2006. David, who as General Counsel is also responsible for Shore Capital's legal affairs, is primarily involved in the group's asset management and principal finance divisions. David joined the board of Puma Hotels on 31 December 2010.

## **Alex Abadie** Head of Asset Management



Alex Abadie, 46, joined Shore Capital Limited as CEO in 2009. Immediately prior, he was a Managing Director and management committee member of Credit Suisse's Asset Management Division, responsible globally for structuring all new investment products and providing customised solutions to insurance and pensions clients, and a board member of Credit Suisse Asset Management Ltd. He was previously a Managing Director at Morgan Stanley. Alex has a Masters from Stanford, MBA from Chicago and SMG from Harvard. He chairs the Investment Committee of Shore Capital Limited.

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



Thomas Marlinghaus, 53, graduated with a degree in business administration and began his career at Berliner Bank, where he became an investment manager in the bank's private equity unit. In 1995, he joined a family-owned private equity and management group as managing director. In this role, Thomas acted as the CFO of ProMarkt, at the time Germany's second largest consumer electronic retail chain, which was sold to Kingfisher in 1998. Thomas was also directly responsible for identifying acquisition and disposal opportunities including in real estate. Thomas is Chief Operating Officer of Shore Capital's German team and also responsible for asset management.

# Corporate Governance

## General

The Group is committed to the principles of corporate governance contained in the Combined Code on Corporate Governance which was issued in 2006 and updated in May 2010 by the Financial Reporting Council ('the Code') in relation to matters for which the board is accountable to shareholders.

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

## Board of Directors

During the year, the Group carried out a corporate reorganisation as a result of which Shore Capital Group Limited became the holding company of the Group on 26 March 2010. The following information applies in respect of the composition of the Board of the new holding company.

The Board currently comprises two executive and three 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 each of the non-executive directors, Mr C W Cochrane, Dr Z Marom and Mr J B Rosenwald III, to be independent in character and judgement. Whilst both Dr Z Marom and Mr J B Rosenwald III 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. 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 (as set out below), these largely arise as a consequence of the size of the Group and of the Board. The Board believes that the arrangements it has in place are appropriate for a group of its size and nature.

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 Board has two committees, the Audit

Committee and the Remuneration Committee (see below). The Board does not have a Nominations Committee or a senior independent director. This is because with three non-executive directors and a Board of only 5 in total, nominations can be readily handled without a committee by the Board as a whole, whilst the non-executive directors are accessible to shareholders in the event of issues arising.

The Board has an informal annual review process to assess how each of the Directors is performing. The performance of the executive director is 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 Board of Shore Capital Group Limited met 7 times during 2010. 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
<b>Total number of meetings in 2010 following the corporate reorganisation</b>	<b>7</b>	<b>1</b>	<b>2</b>
Number of meetings attended in 2010			
H P Shore	7	n/a	n/a
G B Shore*	3	n/a	n/a
C W Cochrane	7	1	n/a
Dr Z Marom	7	1	2
J B Rosenwald III	7	1	2

\*G B Shore was appointed as a director on 3 May 2010

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 three non-executive directors, Mr C W Cochrane, Dr Z Marom and Mr J B Rosenwald III,

and is chaired by Mr C W Cochrane. The Audit Committee undertakes a detailed review of the Company's half yearly and annual financial reports, is responsible for reviewing whether the accounting policies are appropriate and for monitoring internal compliance and external audit functions including the cost effectiveness, independence and objectivity of the auditors. The committee meets periodically with the auditors to receive a report on matters arising from their work.

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

#### Remuneration Committee

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

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

#### Going concern

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

The group has considerable financial resources together with an established business model. As a consequence, the directors believe that the group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

#### Internal control

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

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

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

#### Relations with shareholders

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

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

# Directors' Report

The directors present their annual report and the audited financial statements of the Group for the financial year ended 31 December 2010.

## 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 11. The statement also includes details of the key performance indicators which management use.

## Results and dividends

The results for the financial year are set out on page 20. An interim dividend of 0.25p per share (2009: 0.25p) was paid during the year. The directors propose a final dividend of 0.625p per share (2009: further interim dividend of 0.625p) making a total for the year of 0.875p per share (2009: 0.875p).

## Capital structure and Group re-organisation

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.

Details regarding the group re-organisation during the year are set out in note 26.

## Fixed assets

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

## Risk management

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

## Directors

The directors who served the company following the corporate reorganisation and their beneficial interests in the ordinary shares of the company were:

		Ordinary shares of Nil par value 31 December 2010
H P Shore	(appointed 20 January 2010)	100,293,700
G B Shore	(appointed 3 May 2010)	21,799,161
C W Cochrane	(appointed 18 January 2010)	–
Dr Z Marom	(appointed 20 January 2010)	501,521
J B Rosenwald III	(appointed 26 January 2010)	2,532,000

The beneficial interests of the directors in share options over ordinary shares of the company are set out in note 6e 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

The Group made charitable donations of £115,000 (2009: £66,000) during the year.

## 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

There were no significant events since the balance sheet date.

## Going concern

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

The group has considerable financial resources together with an established business model. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

### Environmental policy

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

### 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 30 March 2011:

	Ordinary Shares	%
The Mercantile Investment Trust Plc	24,405,543	9.98
Aralon Resources	14,083,000	5.76

### Auditors

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

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

- the directors have taken all the steps which they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s249(2) of the Companies (Guernsey) Law, 2008

During the year the Company appointed new auditors. Deloitte LLP were appointed on 7 December 2010 and they have expressed their willingness to continue in office. A resolution to re-appoint them as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

By order of the Board

**C W Cochrane**  
Company Secretary  
31 March 2011

Regency Court  
Gategny Esplanade  
St Peter Port  
Guernsey GY1 3RH

# Statement of Directors' Responsibilities

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

International Accounting Standard 1 requires that IFRS 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 IFRSs.

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

- select suitable accounting policies in accordance with IAS 8: "Accounting Policies, Changes on Accounting Estimates and Errors" and then apply them consistently;

- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company's financial position and financial performance;
- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that its financial statements comply with the Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# Independent Auditors' Report to the Members of Shore Capital Group Limited

We have audited the financial statements of the group for the year ended 31 December 2010 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 26. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 18, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and

adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

## Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's affairs as at 31 December 2010 and of its profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

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

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

## Deloitte LLP

Chartered Accountants  
Guernsey, Channel Islands

31 March 2011

# Consolidated Income Statement

For the year ended 31 December 2010

	Notes	Continuing operations 2010 £'000	Operations being demerged 2010 £'000	Total 2010 £'000	Pro-forma excluding PBL Restated See note 8 2009 £'000	Total including PBL Restated See note 8 2009 £'000
<b>Revenue</b>	1, 2	<b>35,483</b>	–	<b>35,483</b>	42,429	42,429
Administrative expenditure		<b>(26,755)</b>	–	<b>(26,755)</b>	(29,796)	(29,796)
<b>Operating profit</b>	3	<b>8,728</b>	–	<b>8,728</b>	12,633	12,633
Interest income	4	<b>284</b>	–	<b>284</b>	554	554
Finance costs	5	<b>(643)</b>	–	<b>(643)</b>	(659)	(659)
Negative goodwill on the acquisition of PBL		–	–	–	–	63,146
		<b>(359)</b>	–	<b>(359)</b>	(105)	63,041
<b>Profit before taxation</b>	2	<b>8,369</b>	–	<b>8,369</b>	12,528	75,674
Taxation	7	<b>(1,977)</b>	–	<b>(1,977)</b>	(2,108)	(2,108)
<b>Profit for the year after taxation including negative goodwill but excluding profit from operations that have been de-merged</b>		<b>6,392</b>	–	<b>6,392</b>	10,420	73,566
Profit after tax from PBL	26	–	<b>987</b>	<b>987</b>	–	3,497
<b>Retained profit for the year</b>		<b>6,392</b>	<b>987</b>	<b>7,379</b>	10,420	77,063
<b>Attributable to:</b>						
Equity holders of the parent				<b>4,520</b>	8,456	71,747
Non controlling interests				<b>1,872</b>	1,964	5,316
Equity holders of de-merged assets				<b>987</b>	–	–
				<b>7,379</b>	10,420	77,063
<b>Earnings per share</b>						
Basic	10			<b>1.83p</b>	3.30p	27.96p
Diluted	10			<b>1.77p</b>	3.21p	27.24p

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Notes	Continuing operations 2010 £'000	Operations being demerged 2010 £'000	Total 2010 £'000	Pro-forma excluding PBL Restated See note 8 2009 £'000	Total including PBL Restated See note 8 2009 £'000
<b>Retained profit after tax for the year</b>		<b>6,392</b>	<b>987</b>	<b>7,379</b>	10,420	77,063
Gains on revaluation of available-for-sale investments taken to equity		385	–	385	16	16
(Losses)/gains on cash flow hedges		(33)	(3,130)	(3,163)	369	1,718
Income tax		9	–	9	(103)	(103)
		(24)	(3,130)	(3,154)	266	1,615
Exchange difference on translation of foreign operations		74	458	532	(223)	(1,597)
<b>Other comprehensive income for the year, net of tax</b>		<b>50</b>	<b>(2,672)</b>	<b>(2,622)</b>	43	18
<b>Total comprehensive income for the year, net of tax</b>		<b>6,827</b>	<b>(1,685)</b>	<b>5,142</b>	10,479	77,097
<b>Attributable to:</b>						
Equity holders of the parent				4,929	8,505	71,768
Non controlling interests				1,898	1,974	5,329
Equity holders of de-merged assets				(1,685)	–	–
				<b>5,142</b>	10,479	77,097
<b>Comprehensive earnings per share</b>						
Basic	10			2.00p	3.31p	27.99p
Diluted	10			1.93p	3.23p	27.28p

# Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	2010 £'000	Pro-forma excluding PBL Restated See note 8 2009 £'000	Total including PBL Restated See note 8 2009 £'000
<b>Non-current assets</b>				
Goodwill	13	381	381	381
Property, plant & equipment	14	12,710	12,687	12,687
Available-for-sale investments	15	11,167	10,106	10,106
Deferred tax asset	7	340	1,598	1,598
		<b>24,598</b>	<b>24,772</b>	<b>24,772</b>
<b>Current assets</b>				
Bull positions and other holdings designated at fair value	16	11,201	10,996	10,996
Trade and other receivables	17	57,760	34,263	34,263
Cash and cash equivalents	18	44,249	59,402	59,402
		<b>113,210</b>	<b>104,661</b>	<b>104,661</b>
Assets de-merged	26	–	–	578,815
		<b>113,210</b>	<b>104,661</b>	<b>683,476</b>
<b>Total assets</b>	2	<b>137,808</b>	<b>129,433</b>	<b>708,248</b>
<b>Current liabilities</b>				
Bear positions designated at fair value		(1,343)	(3,243)	(3,243)
Trade and other payables	19	(38,508)	(20,681)	(20,681)
Derivatives		(806)	(749)	(749)
Tax liabilities		(1,443)	(3,378)	(3,378)
Borrowings	20	(339)	(329)	(329)
		<b>(42,439)</b>	<b>(28,380)</b>	<b>(28,380)</b>
<b>Non-current liabilities</b>				
Borrowings	20	(25,424)	(25,436)	(25,436)
Provision for liabilities and charges	21	(172)	(729)	(729)
		<b>(25,596)</b>	<b>(26,165)</b>	<b>(26,165)</b>
Liabilities associated with the assets de-merged	26	–	–	(512,197)
		<b>(25,596)</b>	<b>(26,165)</b>	<b>(538,362)</b>
<b>Total liabilities</b>	2	<b>(68,035)</b>	<b>(54,545)</b>	<b>(566,742)</b>
<b>Net Assets</b>		<b>69,773</b>	<b>74,888</b>	<b>141,506</b>
<b>Capital and Reserves</b>				
Called up share capital	23	–	5,590	5,590
Merger reserve		27,368	20,112	20,112
Capital redemption reserve		–	1,511	1,511
Own shares	23	–	(9,070)	(9,070)
Other reserves		2,113	2,303	2,303
Retained earnings		34,644	49,445	49,445
Reserves associated with the de-merged assets		–	–	63,267
<b>Equity attributable to equity holders of the parent</b>		<b>64,125</b>	<b>69,891</b>	<b>133,158</b>
Non controlling interest		5,648	4,997	4,997
Non controlling interest associated with the de-merged assets		–	–	3,351
<b>Total equity</b>		<b>69,773</b>	<b>74,888</b>	<b>141,506</b>

Approved by the Board of Directors on 31 March 2011. Signed on behalf of the Board of Directors

**G B Shore**                      **C W Cochrane**  
Director                              Director

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Share capital £'000	Merger reserve £'000	Capital redemption reserve £'000	Own shares £'000	Other reserves £'000	Retained earnings £'000	Non controlling interest £'000	Total Restated See note 8 £'000
At 31 December 2008	5,856	19,956	1,228	(9,351)	712	45,657	2,806	66,864
Retained profit for the year	–	–	–	–	–	71,747	5,316	77,063
Credit in relation to share-based payments	–	–	–	–	297	–	–	297
Valuation change on cash flow hedges	–	–	–	–	213	–	53	266
Foreign currency translation	–	–	–	–	–	(180)	(43)	(223)
Deferred tax credit recognised directly in equity	–	–	–	–	1,069	–	–	1,069
Revaluation in the year on AFS investments	–	–	–	–	16	–	–	16
Equity dividends paid	–	–	–	–	–	(772)	–	(772)
Shares issued in respect of option and share schemes	17	156	–	146	–	–	–	319
Shares issued to non controlling interests	–	–	–	–	20	–	217	237
Repurchase/cancellation of own shares	(283)	–	283	135	–	(3,740)	–	(3,605)
Changes associated with the assets to be de-merged:								
Valuation change on cash flow hedges	–	–	–	–	1,281	–	68	1,349
Foreign currency translation	–	–	–	–	(1,305)	–	(69)	(1,374)
<b>At 31 December 2009</b>	<b>5,590</b>	<b>20,112</b>	<b>1,511</b>	<b>(9,070)</b>	<b>2,303</b>	<b>112,712</b>	<b>8,348</b>	<b>141,506</b>

Continued on next page

# Consolidated Statement of Changes in Equity continued

For the year ended 31 December 2010

	Share capital £'000	Merger reserve £'000	Capital redemption reserve £'000	Own shares £'000	Other Reserves £'000	Retained earnings £'000	Non controlling interest £'000	Total Restated See note 8 £'000
At 31 December 2009	5,590	20,112	1,511	(9,070)	2,303	112,712	8,348	141,506
Retained profit for the year	–	–	–	–	–	4,520	1,872	6,392
Revaluation of available for sale investments	–	–	–	–	385	–	–	385
Credit in relation to share-based payments	–	–	–	–	161	–	–	161
Foreign currency translation	–	–	–	–	–	43	31	74
Deferred tax charge recognised directly in equity	–	–	–	–	(731)	–	–	(731)
Valuation change on cash flow hedge	–	–	–	–	(28)	–	(5)	(33)
Equity dividends paid	–	–	–	–	–	(2,154)	–	(2,154)
Dividends paid to non controlling interests	–	–	–	–	–	–	(1,301)	(1,301)
Shares issued before the re-organisation in respect of options exercised	29	230	–	55	–	–	–	314
Repurchase/cancellation of own shares	(147)	–	147	–	–	(3,419)	–	(3,419)
Changes associated with the de-merged assets:								
Profit for the period from PBL	–	–	–	–	–	937	50	987
Valuation change on cash flow hedges	–	–	–	–	(2,973)	–	(157)	(3,130)
Foreign currency translation	–	–	–	–	435	–	23	458
Share issued in subsidiaries to non controlling interests	–	–	–	–	–	–	251	251
Changes associated with the corporate re-organisation:								
De-merger of PBL	–	–	–	–	2,561	(68,976)	(3,518)	(69,933)
Cancellation of own shares	–	–	–	9,015	–	(9,015)	–	–
Re-organisation of share capital (net of associated costs)	(5,472)	6,856	(1,658)	–	–	–	–	(274)
Shares issued after the re-organisation in respect of options exercised	–	170	–	–	–	–	–	170
Share/participations issued in subsidiaries to non controlling interests	–	–	–	–	–	–	150	150
Cancellation of share/participations in subsidiaries	–	–	–	–	–	(4)	(96)	(100)
<b>At 31 December 2010</b>	<b>–</b>	<b>27,368</b>	<b>–</b>	<b>–</b>	<b>2,113</b>	<b>34,644</b>	<b>5,648</b>	<b>69,773</b>

# Consolidated Cash Flow Statement

For the year ended 31 December 2010

	Notes	2010 £'000	Restated See note 8 2009 £'000
<b>Cash flows from operating activities</b>			
Operating profit		8,728	12,633
Adjustments for:			
Depreciation charges	14	921	1,057
Share-based payment expense		161	297
(Profit)/loss on revaluation of available for sale investments		(224)	2,086
(Decrease)/increase in provision for National Insurance on options		(557)	710
<b>Operating cash flows before movements in working capital</b>		<b>9,029</b>	<b>16,783</b>
Increase in trade and other receivables		(23,497)	(17,888)
Increase in trade and other payables		17,851	5,948
(Decrease)/increase in bear positions		(1,900)	2,386
(Increase)/decrease in bull positions		(205)	19,623
<b>Cash generated by operations</b>		<b>1,278</b>	<b>26,852</b>
Interest paid		(643)	(659)
Corporation tax paid		(3,385)	(103)
<b>Net cash (utilised)/generated by operating activities</b>		<b>(2,750)</b>	<b>26,090</b>
<b>Cash flows from investing activities</b>			
Purchase of fixed assets		(570)	(236)
Purchase of available for sale investments		(451)	(11,984)
Sale of available for sale investments		–	566
Purchase of shares issued by PBL and de-merged		(4,749)	–
Interest received		284	554
<b>Net cash utilised by investing activities</b>		<b>(5,486)</b>	<b>(11,100)</b>
<b>Cash flows from financing activities</b>			
Shares purchased in subsidiary from Non Controlling Interests		(100)	–
Costs of corporate reorganisation		(274)	–
Shares/participations issued in subsidiaries to Non Controlling Interests		150	237
Shares issued in respect of exercise of options/share scheme		484	319
Repurchase of shares:		(3,419)	(3,605)
Decrease in borrowings		(339)	(329)
Dividends paid to Equity shareholders		(2,154)	(772)
Dividends paid to Non Controlling Interests		(1,301)	–
<b>Net cash utilised by financing activities</b>		<b>(6,953)</b>	<b>(4,150)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(15,189)</b>	<b>10,840</b>
<b>Effects of exchange rate changes</b>		<b>36</b>	<b>(93)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	18	<b>59,402</b>	<b>48,655</b>
<b>Cash and cash equivalents at the end of the year</b>	18	<b>44,249</b>	<b>59,402</b>

# Notes to the Financial Statements

For the year ended 31 December 2010

## 1. Accounting Policies

### Basis of preparation

The annual financial statements of Shore Capital Group Limited (the "Company") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("Adopted IFRS").

### Presentation of the financial statements and financial information

The Company was formed on 18 January 2010. On 26 March 2010 it acquired the entire share capital of Shore Capital Group plc. In accordance with merger accounting principles, these financial statements cover the twelve month period to 31 December 2010 including the period prior to the acquisition during which Puma Brandenburg Limited ("PBL") was part of the Group.

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 except where otherwise indicated.

In accordance with Section 244(5) of the Companies (Guernsey) Law, 2008, the accounts of the parent company are not presented as part of these financial statements.

### Adoption of new and revised standards

The Company acquired Shore Capital Group plc on 26 March 2010 and has adopted in full the accounting policies of the group acquired. The accounting policies utilised are therefore consistent with the previous financial year except for the adoption of new Standards and Interpretations as of 1 January 2010 as follows:

IFRS 3	(2008) Business Combinations,
IAS 27	(2008) Consolidated and Separate Financial Statements
IFRS 2	(amendments) Group Cash Settled Share based Payment Transactions
IAS 39	(July 2008 amendments) Financial Instruments: Recognition and Measurement-Eligible Hedged Items
IFRIC	17 Distribution of Non cash Assets to Owners
IFRIC 18	Transfers of Assets from Customers

Adoption of the above Standards and Interpretations did not have any impact on the financial performance or position of the group but may impact the accounting for future transactions and arrangements except of IFRS 3, IAS 27 and IFRIC 17.

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 9	Financial Instruments: Classification and Measurement
IAS 24	(revised November 2009) Related Party Disclosures
IAS 32	(amended) Classification of Right Issues
IFRIC 14	(amended) Prepayment of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

The directors do not anticipate that the adoption of these Standards and Interpretations in future periods will have a material impact on the Group's financial statements in the period of initial application.

The Group has not early adopted any other standard, interpretation or amendment that was issued but is not yet effective.

## 1. Accounting Policies *continued*

### **General information**

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

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

### **Basis of consolidation**

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

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

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

### **Judgements and key sources of estimation uncertainty**

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

#### *Judgements*

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

#### *Taxation*

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

#### *Deferred tax assets*

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

#### *Estimates and assumptions*

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

#### *Fair value of unquoted equity instruments*

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

#### *Share-based payments*

The Group measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Judgement is required in determining the most appropriate valuation model for a grant of equity instruments, depending on the terms and conditions of the grant. Management are also required to use judgement in determining the most appropriate inputs to the valuation model. Details of the assumptions and model used are set out in note 6(c).

# Notes to the Financial Statements continued

For the year ended 31 December 2010

## 1. Accounting Policies continued

### Foreign currency translation

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

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

### Borrowing costs

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

### Revenue

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

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

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

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

### Financial instruments

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

#### *Financial assets and liabilities*

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

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

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

#### *Effective interest method*

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

## 1. Accounting Policies continued

### Financial instruments continued

#### Financial assets and liabilities at FVTPL

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

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

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

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

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

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

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

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

#### AFS investments

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

#### Loans and receivables

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

#### Derecognition of financial assets

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

# Notes to the Financial Statements continued

For the year ended 31 December 2010

## 1. Accounting Policies continued

### Impairment of financial assets

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

### *Financial assets carried at amortised cost*

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

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

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

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

### *Available-for-sale financial investments*

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

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

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

### Cash flow hedges

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

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

## 1. Accounting Policies continued

### Cash flow hedges continued

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

### Cash and cash equivalents

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

### Trade and other payables

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

### Equity instruments

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

### Repurchase of share capital (own shares)

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

### Intangible assets

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

### Negative Goodwill

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

### Impairment of goodwill and other non-financial assets

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

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

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

# Notes to the Financial Statements continued

For the year ended 31 December 2010

## 1. Accounting Policies continued

### Property, plant & equipment

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

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

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

### Property and operating leases

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

### Pension costs

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

### Taxation

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

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

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

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

## 1. Accounting Policies *continued*

### Share-based payments

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

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

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

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

### Loans and borrowings

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

### Provisions

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

## 2. Segment Information

Additional analysis of revenue and results is presented in the Chairman's Statement on pages 4 to 11.

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

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

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

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

# Notes to the Financial Statements continued

For the year ended 31 December 2010

## 2. Segment Information continued

Year ended 31 December 2010	Equity Capital Markets £'000	Asset Management/ Principal Finance £'000	Operations de-merged £'000	Consolidated £'000
<b>Revenue</b>	<b>26,268</b>	<b>9,215</b>	–	<b>35,483</b>
<b>Results:</b>				
Depreciation	127	794	–	921
Interest expense	(22)	(621)	–	(643)
<b>Profit before tax</b>	<b>7,632</b>	<b>737</b>	–	<b>8,369</b>
<b>Profit after tax from PBL</b>	–	–	<b>987</b>	<b>987</b>
<b>Assets</b>	<b>62,871</b>	<b>74,937</b>	–	<b>137,808</b>
<b>Liabilities</b>	<b>(40,480)</b>	<b>(27,555)</b>	–	<b>(68,035)</b>

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

Year ended 31 December 2009	Equity Capital Markets £'000	Asset Management/ Principal Finance £'000	Operations de-merged £'000	Consolidated £'000
<b>Revenue</b>	<b>27,616</b>	<b>14,813</b>	–	<b>42,429</b>
<b>Results:</b>				
Depreciation	171	886	–	1,057
Interest expense	24	635	–	659
Profit before tax	8,825	3,703	63,146	75,674
<b>Profit after tax from PBL</b>	–	–	<b>3,497</b>	<b>3,497</b>
<b>Assets</b>	<b>44,939</b>	<b>84,494</b>	<b>578,815</b>	<b>708,248</b>
<b>Liabilities</b>	<b>25,314</b>	<b>29,231</b>	<b>512,197</b>	<b>566,742</b>

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

### 3. Operating Profit

	2010 £'000	2009 £'000
Operating profit has been arrived at after charging:		
Depreciation	921	1,057
Property lease rentals	626	661
Loss on disposal of fixed assets	–	–

Exchange differences, excluding those arising on financial instruments		
– Exchange differences	36	63
Total exchange differences	36	63

### 4. Interest Income

	2010 £'000	2009 £'000
Bank interest	243	296
Other interest receivable	41	258
	284	554

### 5. Finance Costs

	2010 £'000	2009 £'000
Interest on overdraft and other finance costs	625	626
Other interest payable	18	33
	643	659

### 6. Employees and Directors

#### a) Employee numbers

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

	2010 No.	2009 No.
<b>Investment banking activities:</b>		
Securities	67	64
Corporate Advisory	13	11
Asset Management	38	35
	118	110

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

	2010 £'000	2009 £'000
Salaries and commission	13,188	14,085
Social security costs	798	2,660
Pension costs	204	188
	14,190	16,933

# Notes to the Financial Statements continued

For the year ended 31 December 2010

## 6. Employees and Directors continued

### c) Employee Share Option Plan

The Group continues to maintain the Share Option Plan (the "Plan") that was in place prior to the group re-organisation. In addition, from time to time the Company issues options on the same terms as the Plan. 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. Options granted under the Plan are subject to vesting periods which are based on continuing service. Thereafter the options may be exercised for the rest of their 10 year life without further test. Options are forfeited if the employee chooses to leave the Group before the options vest. If an employee holding vested options leaves the group, the options held must be exercised within 6 months of the date of leaving. As at 31 December 2010, there were 20,077,371 (2009: 22,724,348) options in issue under the Plan representing 7.6% (2009: 8.30%) of the Group's issued share capital on a fully diluted basis. Details of the share options outstanding during the year are as follows:

	Number of share options	2010 Weighted average exercise price	Number of share options	2009 Weighted average exercise price
Outstanding at beginning of year	22,724,348	19.3p	19,117,171	19.2p
Granted during the year	600,000	28.5p	4,450,000	25.0p
Forfeited during the year	(380,000)	25.0p	–	–
Exercised during the year	(2,866,977)	15.0p	(842,823)	20.5p
Outstanding at the end of the year	<b>20,077,371</b>	<b>19.7p</b>	22,724,348	19.3p
Exercisable at the end of the period	<b>15,927,371</b>		16,974,348	

The options outstanding at 31 December 2010 had a weighted average remaining contractual life of 3 years 6 months (2009: 4 years 4 months).

Using a Black-Scholes option pricing model, the aggregate of the estimated fair value of the options granted in 2010 was £41,000 (2009: £375,000). The inputs into the Black-Scholes model were as follows:

	2010	2009
Weighted average exercise price	<b>28.5p</b>	25.0p
Weighted average volatility	<b>0.2839</b>	0.6400
Expected life	<b>10 years</b>	10 years
Weighted average risk-free rate	<b>0.50%</b>	0.74%
Expected dividend yields	<b>1.00%</b>	1.00%

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

In 2010, the Group recognised total expenses of £160,000 (2009: £297,000) related to equity-settled share-based payment transactions.

### d) Emoluments of the Directors of the Company

	Gross salary £'000	Bonus, commission and other income £'000	Pension Contributions £'000	Benefits £'000	Total £'000
<b>2010</b>					
H P Shore	200	–	–	36	236
G B Shore	150	180	10	32	372
C W Cochrane	15	–	–	–	15
Dr Z Marom	40	–	–	–	40
J B Rosenwald	31	–	–	–	31
	<b>436</b>	<b>180</b>	<b>10</b>	<b>68</b>	<b>694</b>

## 6. Employees and Directors *continued*

e) The following options over unissued ordinary shares of nil par value 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	5,921,990	15 January 2002	20.5p	Before 31 December 2015
G B Shore	1,539,306	15 January 2002	20.5p	Before 31 December 2015

On 9 March 2010, H P Shore and G B Shore each exercised options over 146,341 unissued ordinary shares in Shore Capital Group plc at an exercise price of 20.5p each. The market price on the date of exercise was 37.0p.

The closing price of the shares at 31 December 2010 was 25.75p (2009: 38.0p) and the range during the year was 25.75p to 40.75p.

### f) Related party transactions

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

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

Transactions between Group companies comprise management charges for central overheads which are recharged throughout the Group.

The Group has a loan of €3,500,000 that is due from PBL. PBL is a related party as it has a high degree of common ownership following its de-merger from the Group (see Note 26). The loan is held on arms length terms and conditions.

### h) Compensation of key management personnel

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

	2010 £'000	2009 £'000
Salaries and other short-term benefits	3,814	3,052
	<b>3,814</b>	<b>3,052</b>

# Notes to the Financial Statements continued

For the year ended 31 December 2010

## 7. Tax on Profit on Ordinary Activities

	2010 £'000	2009 £'000
The tax charge comprises:		
Provision for United Kingdom corporation tax charge at 28.0% (2009: 28.0%)	1,610	2,149
Prior year overprovision	–	(243)
Movement in deferred tax	367	202
	<b>1,977</b>	<b>2,108</b>

Tax in Guernsey is charged at 0%. Tax on the Group's UK subsidiaries is charged at 28% as detailed below:

	2010 £'000	2009 £'000
Profit on ordinary activities before tax	8,369	75,674
Tax thereon at 28.0% (2009: 28.0%)	2,343	21,189
Effects of:		
Expenses not deductible for tax purposes	352	478
Income not chargeable to tax	(644)	(19,244)
Share based payments	(1)	74
Capital allowances in excess of depreciation	(248)	(287)
Temporary differences	203	227
Capital losses utilised	–	(14)
Prior year adjustment	–	(243)
Other	(28)	22
Amounts taxed at different rates	–	(94)
	<b>1,977</b>	<b>2,108</b>

## Deferred Taxation

	Share-based payments £'000	Temporary differences £'000	Total £'000
At 1 January 2010	1,204	394	1,598
Credit/(charge) to income	46	(413)	(367)
(Charge)/credit to equity	(740)	9	(731)
Transfer from Deferred tax to Current tax	(160)	–	(160)
<b>At 31 December 2010</b>	<b>350</b>	<b>(10)</b>	<b>340</b>

## 8. Restatement of prior year

In order to comply fully with paragraph 42 of IFRS 3 (2008), the treatment of a gain of £3,441,000 previously included as a movement on reserves has been revised to record it in the income statement.

The Consolidated Statement of Financial Position as at 31 December 2009 included within Total Assets the following items: Cash at Bank of £626,000, and Available-for-Sale Investments of £1,156,000, against the two of which there was a net provision of £338,000. It has been determined that these items should not have been consolidated into that year's Statement and hence we have restated this Statement to exclude these assets.

As a result of the above the effect on the prior period profit and loss is as follows:

	£'000
Retained profit for the year as previously reported	75,066
Prior period adjustment	1,977
<b>Restated profit for the year</b>	<b>77,063</b>

There was no impact on the closing 2008 position.

## 9. Rates of Dividends Paid and Proposed

	2010 £'000	2009 £'000
Amounts recognised as distributions to equity holders in the period:		
Second interim dividend for the year ended 31 December 2009 of 0.625p per share (2009 final dividend: 0.05p)	<b>1,537</b>	128
Interim dividend for the year ended 31 December 2010 of 0.25p per share (2009: 0.25p)	<b>617</b>	644
	<b>2,154</b>	772
Proposed final dividend for the year ended 31 December 2010 of 0.625p per share (2009: second interim dividend of 0.625p)	<b>1,528</b>	

## 10. Earnings per Share

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

	2010		2009	
	Basic	Diluted	Basic	Diluted
Earnings (£)	<b>4,520,000</b>	<b>4,520,000</b>	71,747,000	71,747,000
Number of shares	<b>246,919,948</b>	<b>254,870,584</b>	256,577,244	263,342,178
Earnings per share (p)	<b>1.83</b>	<b>1.77</b>	27.96	27.24

	2010		2009	
	Basic	Diluted	Basic	Diluted
Comprehensive earnings (£)	<b>4,929,000</b>	<b>4,929,000</b>	71,768,000	71,768,000
Number of shares	<b>246,919,948</b>	<b>254,870,584</b>	256,577,244	263,342,178
Comprehensive earnings per share (p)	<b>2.00</b>	<b>1.93</b>	27.99	27.28

### Calculation of number of shares

	2010		2009	
	Basic	Diluted	Basic	Diluted
Weighted average number of shares	<b>246,919,948</b>	<b>246,919,948</b>	256,577,244	256,577,244
Dilutive effect of share option schemes	–	<b>7,950,636</b>	–	6,764,934
	<b>246,919,948</b>	<b>254,870,584</b>	256,577,244	263,342,178

As at 31 December 2010 there were 244,450,877 ordinary shares in issue (2009: 250,991,002 net of shares held in treasury). Movements in the number of shares in issue during the year are set out in note 23.

# Notes to the Financial Statements continued

For the year ended 31 December 2010

## 11. Lease Commitments

	2010 £'000	2009 £'000
Minimum lease payments under operating leases recognised as an expense during the year	<b>626</b>	661

At 31 December 2010 the Group had outstanding commitments for future minimum lease payments under operating leases, which fall due as follows:

	2010 £'000	2009 £'000
<b>Operating leases</b>		
Amounts payable in under one year	<b>626</b>	661
Amounts payable between one and five years	<b>988</b>	1,538
Amounts payable between five and ten years	–	–
	<b>1,614</b>	2,199

## 12. Categories of Financial Assets and Liabilities

At 31 December 2010	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
<b>Financial assets</b>						
Cash and cash equivalents	–	–	–	–	44,249	44,249
Trading assets (bull positions)	<b>7,436</b>	<b>3,765</b>	–	–	–	11,201
Trade receivables in the course of collection	–	–	–	–	52,038	52,038
Loans	–	–	<b>533</b>	–	–	533
Financial investments	–	–	–	<b>11,167</b>	–	11,167
Other assets	–	–	–	–	3,220	3,220
Accrued income	–	–	–	–	1,969	1,969
	<b>7,436</b>	<b>3,765</b>	<b>533</b>	<b>11,167</b>	<b>101,476</b>	<b>124,377</b>
Goodwill						381
Property, plant & equipment						12,710
Deferred tax asset						340
Total assets per the balance sheet						<b>137,808</b>
<b>Financial liabilities</b>						
Bank overdrafts and borrowings	–	–	–	–	25,763	25,763
Trading positions (bear positions)	–	<b>1,343</b>	–	–	–	1,343
Trade creditors in the course of collection	–	–	–	–	32,184	32,184
Derivatives	–	<b>806</b>	–	–	–	806
Other liabilities	–	–	–	–	5,118	5,118
Accruals	–	–	–	–	1,206	1,206
	–	<b>2,149</b>	–	–	<b>64,271</b>	<b>66,420</b>
Tax liabilities						1,443
Provision for liabilities and charges						172
Total liabilities per the balance sheet						<b>68,035</b>

## 12. Categories of Financial Assets and Liabilities continued

At 31 December 2009	Designated at fair value £'000	Held for trading £'000	Loans and receivables £'000	Available- for-sale securities £'000	Financial assets and liabilities at amortised cost £'000	Total £'000
<b>Financial assets</b>						
Cash and cash equivalents	–	–	–	–	59,402	59,402
Trading assets (bull positions)	7,165	3,831	–	–	–	10,996
Trade receivables in the course of collection	–	–	–	–	24,011	24,011
Loans	–	–	725	–	–	725
Financial investments	–	–	–	10,106	–	10,106
Other assets	–	–	–	–	7,740	7,740
Accrued income	–	–	–	–	1,787	1,787
	7,165	3,831	725	10,106	92,940	114,767
Goodwill						381
Property, plant & equipment						12,687
Deferred tax asset						1,598
Assets de-merged						578,815
<b>Total assets per the balance sheet</b>						<b>708,248</b>
<b>Financial liabilities</b>						
Bank overdrafts and borrowings	–	–	–	–	25,765	25,765
Trading positions (bear positions)	–	3,243	–	–	–	3,243
Trade creditors in the course of collection	–	–	–	–	12,333	12,333
Derivatives	–	749	–	–	–	749
Other liabilities	–	–	–	–	7,661	7,661
Accruals	–	–	–	–	687	687
	–	3,992	–	–	46,446	50,438
Tax liabilities						3,378
Provision for liabilities and charges						729
Liabilities associated with the assets demerged						512,197
<b>Total liabilities per the balance sheet</b>						<b>566,742</b>

## 13. Goodwill

Goodwill arising on the acquisition of  
non controlling interest in subsidiary

Cost	£'000
At 1 January and 31 December 2010	381

There has been no impairment in the value of the asset.

# Notes to the Financial Statements continued

For the year ended 31 December 2010

## 14. Property, Plant & Equipment

Cost	Leasehold premises £'000	Fixtures and equipment £'000	Asset Rental £'000	Motor vehicles £'000	Total £'000
At 1 January 2010	1,039	1,400	12,599	186	15,224
Additions	16	499	–	55	570
Disposals	–	(140)	–	(68)	(208)
Retranslation movement	–	(5)	396	–	391
<b>At 31 December 2010</b>	<b>1,055</b>	<b>1,754</b>	<b>12,995</b>	<b>173</b>	<b>15,977</b>
<b>Depreciation</b>					
At 1 January 2010	575	964	879	119	2,537
Charge for the year	126	232	544	19	921
Retranslation movement	–	(4)	21	–	17
Disposals	–	(140)	–	(68)	(208)
<b>At 31 December 2010</b>	<b>701</b>	<b>1,052</b>	<b>1,444</b>	<b>70</b>	<b>3,267</b>
<b>Net Book Value</b>					
<b>At 31 December 2010</b>	<b>354</b>	<b>702</b>	<b>11,551</b>	<b>103</b>	<b>12,710</b>
At 31 December 2009	464	436	11,720	67	12,687

## 15. Investments

### Available-for-Sale Investments held as Non Current Assets

Cost		Listed investments £'000	Unlisted investments £'000	Total £'000
At 1 January 2010		3,781	7,242	11,023
Additions		377	74	451
Disposals		–	–	–
<b>At 31 December 2010</b>		<b>4,158</b>	<b>7,316</b>	<b>11,474</b>
<b>Revaluation</b>				
At 1 January 2010		(486)	(430)	(916)
Revaluation in the year	– recognised in the income statement	274	(50)	224
	– recognised in equity	982	(597)	385
Disposals		–	–	–
<b>At 31 December 2010</b>		<b>770</b>	<b>(1,077)</b>	<b>(307)</b>
<b>Valuation</b>				
<b>At 31 December 2010</b>		<b>4,928</b>	<b>6,239</b>	<b>11,167</b>
At 31 December 2009		3,295	6,812	10,107

## 15. Investments *continued*

### Additional information on principal subsidiaries.

Subsidiary		Country of registration and operation	Activity	Portion of ordinary shares and voting rights held
<b>Trading Companies</b>				
Shore Capital Group Treasury Limited		Guernsey	Treasury company	100%
Shore Capital Group Investments Ltd		Guernsey	Holds investments	100%
Puma Property Investment Advisers Ltd		Guernsey	Property advisory services	100%
Shore Capital Finance Limited		Guernsey	Credit provider	100%
Shore Capital Markets Limited	1	England and Wales	Intermediate Holding Co.	79.5%
Shore Capital Stockbrokers Limited	2	England and Wales	Broker/dealer	79.5%
Shore Capital and Corporate Limited	2	England and Wales	Corporate advisers	79.5%
Shore Capital Limited		England and Wales	Fund Management	100%
Shore Capital Group plc		England and Wales	Intermediate Holding Co.	100%
Shore Capital Investments Limited		England and Wales	Holds investments	100%
Shore Capital Treasury Limited		England and Wales	Treasury company	100%
Shore Capital International Limited		England and Wales	Advisory services	100%
Shore Capital Management Limited		England and Wales	Member of an LLP	100%
Shore Capital (Japan) Limited		England and Wales	Credit provider	100%
Pebble Investments Limited		Guernsey	Holds investments	100%
Puma Property Advisers Limited		Guernsey	Property advisory services	100%
JellyWorks Limited		England and Wales	Dormant	100%
<b>Limited Liability Partnerships</b>				
The Lily Partnership LLP		England and Wales	Asset rental business	80%
<b>Nominee Company</b>				
Puma Nominees Limited		England and Wales	Nominee company	100%

1 Shore Capital Markets Limited is the intermediate holding company of, and holds 100% of the ordinary shares and voting rights in, each of Shore Capital Stockbrokers Limited and Shore Capital and Corporate Limited. The Company currently has a direct holding of 79.5% 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 <sup>1</sup> above).

# Notes to the Financial Statements continued

For the year ended 31 December 2010

## 16. Bull Positions and Other Holdings designated at fair value

	2010 £'000	2009 £'000
<b>Held For Trading</b>		
Listed holdings at market value:		
Equities	3,765	3,831
<b>Designated at Fair Value</b>		
Listed holdings at market value:		
Equities	–	–
Debt instruments	2,048	1,556
Invested in own funds and products	–	–
Unlisted holdings:		
Equities	2,042	–
Debt	–	–
Invested in own fund and products	347	5,609
Other (including hedge funds)	2,999	–
	<b>11,201</b>	<b>10,996</b>

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

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

## 17. Trade and Other Receivables

The directors consider that the carrying value of trade and other receivables approximates to their fair value. Trade receivables are shown net of provision for doubtful debts amounting to £113,000 (2009: £304,000).

	2010 £'000	2009 £'000
Trade receivables	52,038	24,011
Other receivables	3,220	7,740
Loans	533	725
Prepayments and accrued income	1,969	1,787
	<b>57,760</b>	<b>34,263</b>

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

	2010 £'000	2009 £'000
Between 30 and 60 days	34	94
Between 60 and 90 days	31	85
Greater than 90 days	614	635
	<b>679</b>	<b>814</b>
Amounts not yet due	57,081	33,449
Trade receivables	<b>57,760</b>	<b>34,263</b>

## 18. Cash and Cash Equivalents

### Analysis of Changes In Net Funds

	As at 1 January 2010 £'000	Cashflows £'000	As at 31 December 2010 £'000
Cash at bank and in hand	59,402	(15,153)	44,249
Overdraft	–	–	–
	<b>59,402</b>	<b>(15,153)</b>	<b>44,249</b>

## 19. Trade and Other Payables

	2010 £'000	2009 £'000
Trade creditors	32,184	12,333
Other creditors	3,175	7,661
Other taxation and social security	1,943	–
Accruals and deferred income	1,206	687
	<b>38,508</b>	<b>20,681</b>

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

# Notes to the Financial Statements continued

For the year ended 31 December 2010

## 20. Borrowings

	2010 £'000	2009 £'000
<b>Secured borrowings at amortised cost</b>		
Bank overdrafts	–	–
Bank loans	25,763	25,765
<b>Total Borrowings</b>	<b>25,763</b>	<b>25,765</b>
Amount due to be repaid within 12 months	339	329
Amount due to be repaid after 12 months	25,424	25,436

	Multi currency loan facility £'000	Amortising USD loan facility £'000	GBP facilities £'000	Total £'000
<b>31 December 2010</b>				
Bank overdraft	–	–	–	–
Bank loans	15,000	10,763	–	25,763
	<b>15,000</b>	<b>10,763</b>	<b>–</b>	<b>25,763</b>

	Multi currency loan facility £'000	Amortising USD loan facility £'000	GBP multi-option facility £'000	Total £'000
<b>31 December 2009</b>				
Bank overdraft	–	–	–	–
Bank loans	15,000	10,765	–	25,765
	<b>15,000</b>	<b>10,765</b>	<b>–</b>	<b>25,765</b>

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 2010, these had a carrying value of £21,005,000 (2009: £19,657,000). The GBP facilities comprise a multi-option overdraft facility and a revolving credit facility which are secured by a floating charge over the assets of the Group's stockbroking subsidiary.

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

	2010 %	2009 %
Bank overdrafts	2.25	2.39
Bank loans	5.05	5.09

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

- (i) Sterling based facilities of £20,000,000 in total comprising a multi-option overdraft facility of £15,000,000 and a revolving credit facility of £5,000,000. Under this facility, the Group has the option to draw down a fixture for a fixed maturity or an overdraft which is repayable on demand. The average effective interest rate on bank overdrafts was approximately 2.25% per annum (2009: 2.39%) and was determined on a base rate plus a margin. Both facilities were undrawn as at 31 December 2010.
- (ii) The Group has two principal bank loans:
  - (a) a multi-currency loan facility of £15,000,000 (2009: £15,000,000). During the year this facility was extended to have a minimum term until 29 June 2013. 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% (2.0% from June 2011) above LIBOR for the relevant period in the relevant currency. There is no material difference between the amortised value of the loan and fair value.
  - (b) an amortising loan of \$16,853,000 (2009: \$17,385,000) for which the Group has liability for 80%. Principal is repayable in quarterly instalments with final repayment due on 31 March 2018. The loan is secured by a charge over certain of the Group's fixed assets. The loan carries an interest rate at 1.0% above 3 month USD LIBOR. As at 31 December 2010 the fair value of the loan was \$15,435,000 (2009: \$16,009,000).

### Undrawn Facilities

The Group's multi currency facility of £20,000,000 is structured as a multi option facility of £15,000,000 and a revolving credit facility of £5,000,000. As at the year end, £15,000,000 (2009: £15,000,000) was undrawn on the multi-option facility and £5,000,000 (2009: £5,000,000) was undrawn on the revolving credit advance facility.

## 21. Provision for Liabilities and Charges

Provision for National Insurance contributions on share options

	2010 £'000	2009 £'000
At 1 January	729	19
(Credit)/charge in the year	(557)	710
Payments made in the year	–	–
<b>At 31 December</b>	<b>172</b>	<b>729</b>

This provision will be utilised when staff exercise their options during the period of 1 January 2011 to 23 March 2019.

## 22. Capital Commitments

As at 31 December 2010, there were no amounts which were contracted for but not provided in the financial statements (2009: £nil).

## 23. Called Up Share Capital

	Number of shares	£'000
<b>Shore Capital Group plc – ordinary shares of 2p each</b>		
At 1 January 2009	292,797,235	5,856
Shares issued in respect of options exercised	842,823	17
Shares cancelled from treasury	(297,756)	(6)
Shares repurchased and cancelled	(13,858,096)	(277)
<b>At 1 January 2010</b>	<b>279,484,206</b>	<b>5,590</b>
Shares issued in respect of options exercised	1,466,977	29
Shares cancelled from treasury	(28,369,252)	(567)
Shares repurchased and cancelled	(7,333,560)	(147)
	245,248,371	4,905
Cancelled on reorganisation	(245,248,371)	(4,905)
	–	–
<b>Shore Capital Group Limited – ordinary shares of nil par value</b>		
Issued by SCGL on reorganisation	245,248,371	–
Shares issued in respect of options exercised	1,400,000	–
Shares repurchased and cancelled	(2,197,494)	–
<b>At 31 December 2010</b>	<b>244,450,877</b>	<b>–</b>

### Shore Capital Group plc

During the period from 1 January 2010 up to the date of the re-organisation, there were 1,466,977 (2009: 842,823) ordinary shares of 2p each which were issued as the result of the exercise by employees of share options granted in prior years under the terms of the Share Option Plan.

During the period from 1 January 2010 up to the date of the re-organisation, the company repurchased 7,333,560 (2009: 13,858,096) ordinary shares of 2p each at an average price of 38.9p. The shares were repurchased to enhance the value of the remaining shares.

### Shore Capital Group Limited

During the period from the date of the re-organisation to 31 December 2010, there were 1,400,000 ordinary shares which were issued as the result of the exercise by employees of share options granted in prior years under the terms of the Share Option Plan.

During the period from the date of the re-organisation to 31 December 2010, the company repurchased 2,197,494 ordinary shares at an average price of 25.0p. The shares were repurchased to enhance the value of the remaining shares.

# Notes to the Financial Statements continued

For the year ended 31 December 2010

## 23. Called Up Share Capital continued

### Shore Capital Group plc

Own shares (held in treasury)	Number of shares	£'000
At 1 January 2009	29,279,723	9,351
Acquired in the year	263,989	37
Sold in the year	(488,763)	(146)
Cancelled in the year	(561,745)	(172)
<b>At 1 January 2010</b>	<b>28,493,204</b>	<b>9,070</b>
Sold in the year	(123,952)	(55)
Cancelled in the year	(28,369,252)	(9,015)
<b>At 31 December 2010</b>	<b>-</b>	<b>-</b>

## 24. Financial Instruments

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

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

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

### Net gains or losses arising from dealings in financial instruments

	Designated at fair value £'000	Held for trading £'000	Available-for- sale securities £'000	Total £'000
<b>2010</b>				
Equities	331	16,490	(2,930)	13,891
Debt	1,119	-	-	1,119
Alternative Assets	-	-	-	-
	<b>1,450</b>	<b>16,490</b>	<b>(2,930)</b>	<b>15,010</b>
<b>2009</b>				
Equities	3,272	16,496	-	19,768
Debt	536	-	-	536
Alternative Assets	-	-	-	-
	<b>3,808</b>	<b>16,496</b>	<b>-</b>	<b>20,360</b>

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

#### a) Market Risk

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

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

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

## 24. Financial Instruments continued

The year end positions arising from market-making activities are in line with those maintained throughout 2010. 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.

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

	Net Equity £'000	2010 Change in price of UK equities %	Effect on profit and on equity £'000	Net equity £'000	2009 Change in price of UK equities %	Effect on profit and on equity £'000
Listed equities (net)	2,422	10%	242	588	10%	59
Listed holdings in own funds and products	–	10%	–	–	10%	–
Listed investments	4,928	10%	493	3,295	10%	330

### b) Currency Risk

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

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

	2010 £'000	2009 £'000
Held in United States dollars	4,118	4,193
Held in Euros	3,042	13
	<b>7,160</b>	<b>4,206</b>

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 profit of £52,000 (2009: £1,040,000 loss).

As at the year end the fair value of forward contracts which were hedging bull positions and other holdings was a net liability of £55,000 (2009: £30,000). The related notional contracts as at 31 December 2010 were £9,093,000 (2009: £2,601,000).

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

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

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

	Euro £'000	2010 US Dollar £'000	Euro £'000	2009 US Dollar £'000
5% Stronger against GBP	246	(191)	244	(291)
5% Weaker against GBP	(223)	173	(221)	263

# Notes to the Financial Statements continued

For the year ended 31 December 2010

## 24. Financial Instruments continued

### c) Interest Rate Risk

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

The interest bearing financial assets and liabilities of the Group comprise cash and cash equivalents, bank overdrafts and bank borrowings as shown in the consolidated balance sheet. Cash and cash equivalents receive, and bank overdrafts pay, interest at floating rates linked to either bank base rates or money market rates. The Group has a £15m overdraft facility and a £5m revolving advance facility which are both renewable annually, and a £15m multi-currency loan facility that has a minimum term until 29 June 2013. These borrowings pay interest at rates linked to money market rates for the relevant currency. The Group also has an amortising loan of \$16,853,000 for which there is a cashflow hedge to fix the rate of interest until 31 December 2012. Thereafter, the rate of interest is linked to USD money market rates. The bank borrowings are described in more detail in note 20.

#### Interest rate sensitivity analysis

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

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

	2010 £'000	2009 £'000
+ 100 basis point movement in interest rates	21	7
As percentage of total shareholders' equity	0.033%	0.005%

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

### d) Credit Risk

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

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

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

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

	2010 £'000	2009 £'000
TD Waterhouse	3,887	6,631
Barclays Bank plc	642	2,704
Pershing Securities Limited	582	1,377
Redmayne Bentley	548	1,614
Halifax plc	479	1,131
	<b>6,138</b>	<b>13,457</b>

## 24. Financial Instruments continued

### e) Liquidity Risk

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

### Maturity profile of financial liabilities

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

	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
<b>2010</b>						
Bear Positions	–	1,343	–	–	–	1,343
Trade payables	–	32,184	–	–	–	32,184
Derivatives	–	149	282	375	–	806
Bank loans and overdrafts	–	229	680	18,452	10,228	29,589
Other liabilities	–	5,118	–	–	–	5,118
Accruals	–	1,206	–	–	–	1,206
	–	40,229	962	18,827	10,228	70,246
	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
<b>2009</b>						
Bear Positions	–	3,243	–	–	–	3,243
Trade payables	–	12,114	207	12	–	12,333
Derivatives	–	90	180	479	–	749
Bank loans and overdrafts	–	222	659	18,347	10,336	29,564
Other liabilities	–	5,889	2,577	–	–	8,466
Accruals	–	687	–	–	–	687
	–	22,245	3,623	18,838	10,336	55,042

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

### f) Fair value of financial instruments

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

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

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

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

# Notes to the Financial Statements continued

For the year ended 31 December 2010

## 24. Financial Instruments continued

	Level 1 Quoted market price £'000	Level 2 Market observable inputs £'000	Level 3 Non-market observable inputs £'000	Total £'000
<b>2010</b>				
Available for sale financial investments	4,928	4,975	1,264	11,167
Bull positions and other holdings designated at fair value	8,812	2,389	–	11,201
<b>Total financial assets</b>	<b>13,740</b>	<b>7,364</b>	<b>1,264</b>	<b>22,368</b>
Bear positions	1,343	–	–	1,343
Derivatives	–	806	–	806
<b>Total financial liabilities</b>	<b>1,343</b>	<b>806</b>	<b>–</b>	<b>2,149</b>

	Level 1 Quoted market price £'000	Level 2 Market observable inputs £'000	Level 3 Non-market observable inputs £'000	Total £'000
<b>2009</b>				
Available for sale financial investments	3,495	5,597	1,214	10,306
Bull positions and other holdings designated at fair value	5,387	5,609	–	10,996
<b>Total financial assets</b>	<b>8,882</b>	<b>11,206</b>	<b>1,214</b>	<b>21,302</b>
Bear positions	3,243	–	–	3,243
Derivatives	–	749	–	749
<b>Total financial liabilities</b>	<b>3,243</b>	<b>749</b>	<b>–</b>	<b>3,992</b>

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

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

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

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

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

	At 1 January 2010 £'000	Losses recorded in profit or loss £'000	Purchases and transfers £'000	Sales and transfers £'000	At 31 December 2010 £'000
<b>Total financial assets</b>	1,214	(24)	74	–	<b>1,264</b>

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

## 25. Regulatory Capital

The Group's lead regulator is the Financial Services Authority (FSA). Three of the Group's operating subsidiaries are regulated by the FSA which imposes a minimum level of regulatory capital which must be maintained by each company and also an overall level of regulatory capital which must be maintained by the Group's UK businesses\*. The Group has maintained a surplus throughout the year over its regulatory capital requirements.

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

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

	2010 £'000	2009 £'000
<b>UK group companies*</b>		
Capital resources*	37,710	74,996
Less Capital Resources Requirement	(10,963)	(19,452)
Surplus capital resources	<b>26,747</b>	55,544

\* The calculation of Capital Resources for the purposes of these rules only permits the inclusion of resources that are located in EU countries. Accordingly, following the re-organisation of the group, the amount of Capital resources as presented in the table above for the year ended 31 December 2010 excludes the assets and liabilities that are held by the Group's Guernsey based companies.

## 26. Group re-organisation

On 26 March 2010, the Company acquired the entire share capital of Shore Capital Group plc ("SCGplc") by way of a scheme of arrangement. Following the scheme, SCGplc has become a wholly owned subsidiary of the Company, and the Company's shares have been admitted to trading on AIM. In addition, the Company has also listed its shares on the Bermuda Stock Exchange.

On the same date, the Group de-merged its interest in Puma Brandenburg Limited ("PBL") into a new holding company, Puma Brandenburg Holdings Limited, which was listed on the Euro MTF market of the Luxembourg Stock Exchange.

# Notice of Annual General Meeting

## SHORE CAPITAL GROUP LIMITED

(a non cellular company limited by shares registered in the Island of Guernsey with registration number 51355)  
(the "Company")

Notice is hereby given that the annual general meeting of the Company will be held at 10.45 a.m. on 6 May 2011 at Regency Court, Gategny Esplanade, St Peter Port, Guernsey GY1 3RH (the "Annual General Meeting") for the following purposes:

### Ordinary Business

To consider and, if thought fit, pass the following resolutions as ordinary resolutions:

- 1 To receive and adopt the Accounts for the period ended 31 December 2010, together with the reports of the Directors and Auditors thereon.
- 2 To re-elect Howard Shore as a director who retires by rotation pursuant to article 15.6 of the Company's Articles of Incorporation and, being eligible, offers himself for re-election.
- 3 To re-elect Zvi Marom as a director who retires by rotation pursuant to article 15.6 of the Company's Articles of Incorporation and, being eligible, offers himself for re-election.
- 4 To re-elect James Rosenwald as a director who retires by rotation pursuant to article 15.6 of the Company's Articles of Incorporation and, being eligible, offers himself for re-election.
- 5 To re-appoint Deloitte LLP as Auditors of the Company and to authorise the Directors to determine their remuneration.

### Special Business

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

- 6 To renew the authority of the Company, in accordance with Section 315 of The Companies (Guernsey) Law, 2008, as amended (the "Law"), to make market acquisitions (within the meaning of Section 316 of the Law) of each class of its own shares in issue from time to time (the "Shares") provided that:
  - (i) the maximum number of Shares hereby authorised to be purchased shall be such number as shall be equal to 14.99 per cent. of the issued share capital of the Company (excluding shares held in treasury) as at the date of the Annual General Meeting;
  - (ii) the minimum price (exclusive of expenses) which may be paid for a Share shall be £0.01 (one pence);
  - (iii) the maximum price which may be paid for a Share of the relevant class is an amount not more than 5 per cent. above the average of the market value of those Shares for the 5 business days before the purchase is made; and
  - (iv) the authority hereby conferred shall expire at the conclusion of the Company's annual general meeting in 2012 or, if earlier, eighteen months from the date of this resolution unless such authority is varied, revoked or renewed prior to such date by an ordinary resolution of the members of the Company.

Any Shares bought back by the Company will be cancelled or held as treasury shares.

To consider and, if thought fit, pass the following resolution as a special resolution:

- 7 To authorise the Directors to allot shares for cash as though the rights of pre-emption granted pursuant to Article 3.8 of the Company's Articles of Incorporation did not apply:
  - (i) in connection with a rights issue to existing shareholders (to allow the Directors to take action to overcome certain practical difficulties which could arise in that scenario), and
  - (ii) up to 24,445,087 Ordinary Shares based on the net issued share capital as at 6 April 2011 being the last practicable date prior to the posting of this Notice, being 10 per cent of the net current issued share capital of the Company (to give the Directors some flexibility in financing business opportunities as they arise).

This authority would expire on the date of the 2012 annual general meeting or 5 November 2012, whichever is the earlier.

BY ORDER OF THE BOARD

C W Cochrane  
Company Secretary  
Dated: 6 April 2011

**Registered Office:**  
Regency Court  
Gategny Esplanade  
St Peter Port  
Guernsey  
GY1 3RH

#### Notes:

- 1 A member who is entitled to attend and vote at this Annual General Meeting may appoint one or more proxies to attend and vote on his/her behalf. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. If you require additional proxy forms, please contact the Company's Registrars, Computershare Investor Services (Guernsey) Limited, c/o The Pavilions, Bridgwater Road, Bristol, BS99 6ZY on 0870 707 1289 or you may photocopy this form.
- 2 Such a proxy need not be a member of the Company.
- 3 To be valid, a Form of Proxy must be lodged with the Company's Registrars, Computershare Investor Services (Guernsey) Limited, c/o The Pavilions, Bridgwater Road, Bristol, BS99 6ZY at least 48 hours before the Annual General Meeting. A Form of Proxy for use by shareholders is enclosed with this Report. Completion of the Form of Proxy will not prevent a shareholder from attending the Annual General Meeting and voting in person.
- 4 In order to facilitate voting by corporate representatives at the Annual General Meeting, arrangements will be put in place at the Annual General Meeting so that (i) if a corporate shareholder has appointed the chairman of the Annual General Meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the Annual General Meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the Annual General Meeting but the corporate shareholder has not appointed the chairman of the Annual General Meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives ([www.icsa.org.uk](http://www.icsa.org.uk)) for further details of this procedure. The guidance includes a sample form of representation letter if the chairman is being appointed as described in (i) above.
- 5 The quorum for the Annual General Meeting is two Shareholders entitled to vote. The majority required for the passing of the ordinary resolutions is a simple majority of votes cast for each resolution. The majority required for the passing of the special resolution is not less than 75 per cent. of the votes cast for that resolution.
- 6 At the Annual General Meeting, the Resolutions shall be decided on a show of hands (unless a poll is demanded) and on a show of hands every Shareholder who is present in person or by proxy shall have one vote.
- 7 Resolutions 2– 4: Information about the Directors who are proposed by the Board for re-election at the Annual General Meeting is shown on page 12 of the Annual Report and Accounts 2010.
- 8 In accordance with Article 12.1 of the Company's Articles of Incorporation, only those members entered on the Company's register of members not later than 48 hours before the time of the Annual General Meeting or, if the Annual General Meeting is adjourned, shareholders entered on the Company's register of members not later than 48 hours before the time fixed for the adjourned Annual Meeting shall be entitled to attend and vote at the Annual General Meeting.

# Explanation of Special Business

## Explanation of Resolutions 6 and 7 to be proposed at the Annual General Meeting

On page 54 of the Report is the notice of Annual General Meeting which will be held on 6 May 2011. Set out below is a brief explanation of the resolutions comprising special business to be proposed at the Annual General Meeting.

### Resolution 6

In certain circumstances it may be advantageous for the Company to purchase its own shares. Resolution 6, which will be proposed as an ordinary resolution, would give the Board authority from shareholders to do so. Such authority will expire on the date of the 2012 Annual General Meeting or 5 November 2012, whichever is the earlier. The Directors intend to exercise this power only if and when, in the light of market conditions prevailing at the time, they believe that the effect of such purchases would be in the best interests of the Company and shareholders generally. Any shares purchased in this way will be cancelled (in which case the number of shares in issue will be accordingly reduced) or held by the Company as treasury shares.

This resolution specifies the maximum number of shares which may be acquired (being 14.99 per cent. of the Company's issued shares as at the date of the resolution) and the maximum and minimum prices at which they may be bought.

Currently 20,077,371 Ordinary Shares are reserved for the exercise of options granted under the Company's Share Option Plan which equates to 8.21 per cent. of the Company's issued share capital. This percentage would increase to 9.66 per cent. if the authority to purchase the Company's own shares is exercised in full.

### Resolution 7

Resolution 7 will be proposed as a special resolution and would give the Directors authority to allot shares for cash as though the rights of pre-emption granted pursuant to article 3.8 of the Company's Articles did not apply:

- a) in connection with a rights issue to existing shareholders (to allow the Directors to take action to overcome certain practical difficulties which could arise in that scenario such as arrangements to deal with fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange), and
- b) up to 24,445,087 Ordinary Shares based on the net issued share capital as at 6 April 2011 being the last practicable date prior to the posting of this Report, being 10 per cent. of the net current issued share capital of the Company (to give the Directors some flexibility in financing business opportunities as they arise).

This authority would expire on the date of the 2012 Annual General Meeting or 5 November 2012, whichever is the earlier. The Directors have no present intention of exercising this authority.

# Officers and Professional Advisers

## Directors

H P Shore  
G B Shore  
C W Cochrane\*  
Dr Z Marom\*  
J B Rosenwald III\*

\*Non-executive

## Secretary

C W Cochrane

## Company Number

51355

## Registered Office

Ground Floor  
Regency Court  
Gategny Esplanade  
St Peter Port  
Guernsey GY1 3RH

## Registrar

Computershare Investor Services  
(Guernsey) Limited  
P.O.Box 83  
Ordnance House, 31 Pier Road  
Jersey JE4 8PW

## Legal Adviser

Carey Olsen  
Carey House  
Les Banques  
St Peter Port  
Guernsey GY1 4BZ

## Auditor

Deloitte LLP  
First Floor  
Regency Court  
Gategny Esplanade  
St Peter Port  
Guernsey GY1 3HW

## Bankers

Royal Bank of Scotland International  
Royal Bank Place  
1 Gategny Esplanade  
St Peter Port  
Guernsey GY1 4BQ

## Nominated Adviser

Deloitte Corporate Finance  
Deloitte LLP  
2 New Street Square  
London EC4A 3BZ

**Shore Capital Group Limited**

Regency Court  
Gategny Esplanade  
St Peter Port  
Guernsey GY1 3RH

Tel: 01481 724 222  
Fax: 01481 724 247  
[www.shorecap.gg](http://www.shorecap.gg)

**Shore Capital Group plc**

Bond Street House  
14 Clifford Street  
London W1S 4JU  
[www.shorecap.co.uk](http://www.shorecap.co.uk)

Tel: 020 7408 4090  
Fax: 020 7408 4091  
email: [info@shorecap.co.uk](mailto:info@shorecap.co.uk)

**Shore Capital Stockbrokers Limited**

London office

Tel: 020 7408 4080  
Fax: 020 7408 4081

The Corn Exchange  
Fenwick Street  
Liverpool L2 7RB

Tel: 0151 600 3700  
Fax: 0151 600 3727

1st Floor  
3/5 Melville Street  
Edinburgh EH3 7PE

Tel: 020 7079 1670  
Fax: 0131 226 2893

**Shore Capital International Limited**

Unter den Linden 32/34  
10117 Berlin  
Germany

Tel.: +49 (0)30 20 45 87 0  
Fax: +49 (0)30 20 45 87 187