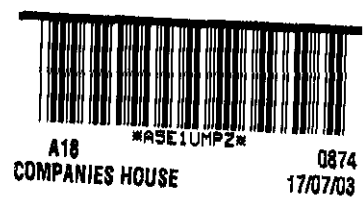


2089582

**Shore Capital Group plc**  
**Report and Financial Statements**  
**31 December 2002**



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## **Officers And Professional Advisers**

### **Directors**

H P Shore  
G B Shore  
M L van Messel  
M Shear\*  
J B Douglas\*  
Dr Z Marom\*

\*Non-executive

### **Secretary**

M L van Messel

### **Registered Number**

2089582

### **Registered Office**

Bond Street House  
14 Clifford Street  
London W1S 4JU

### **Financial Advisers**

BDO Stoy Hayward  
8 Baker Street  
London W1U 3LL

Strand Partners Limited  
110 Park Street  
London W1Y 3RB

### **Stockbroker**

Shore Capital Stockbrokers Limited  
Bond Street House  
14 Clifford Street  
London W1S 4JU

### **Registrar**

Capita Registrars  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

### **Auditors**

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

### **Solicitors**

S J Berwin  
222 Gray's Inn Road  
London WC1X 8XF

Berwin Leighton Paisner  
Adelaide House  
London Bridge  
London EC4R 9HA

### **Bankers**

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

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

HSBC Republic Bank (UK) plc  
31 Hill Street  
London W1J 5LS

## **Chairman's Statement**

### **Introduction**

The difficult trading conditions which we were experiencing when we issued our interim results in August 2002 persisted throughout the remainder of 2002 and into the current year. As I commented at that time, on the one hand, the "bear" market has proved almost unrelenting and has continued for longer than could have been anticipated. On the other hand, our industry being in turmoil offers a rare opportunity for those flexible enough to re-engineer their business model. We are therefore engaged in a balancing exercise where the aim is to create a platform capable of taking advantage of new business flows when confidence improves, but, at the same time, seeking to avoid the burden of overheads higher than we can comfortably carry in the present tough conditions. We are seeking to strike a balance between the short and medium term and have increased our capability in market-making and fund management considerably.

The outcome was a profit in 2002 before exceptional items and tax of £583,000; this was struck after receipt of interest of £1,227,000. The exceptional losses of £1,375,000 resulted from writing down the value of shares in Shore Capital Group held in the Employee Benefit Trust ("EBT") and a further reduction in the value of the JellyWorks portfolio of £895,000 including an additional (and, I believe, final) provision for the unquoted element.

### **Financial Review**

Turnover before exceptional items fell from £6.29m in 2001 to £5.03m in 2002. The loss after exceptional items but before tax was £792,000. The after tax loss was £641,000 representing a loss of 0.14p per share on the weighted average shares in issue during the year.

The exceptional charges relate to two non cash items:

The first was the repurchase of shares in Shore Capital Group held in the EBT. The EBT initially acquired this holding in March 2000 by subscription of cash for equity following a gift to it of the required cash by the Group. The repurchase crystallised a loss of £480,000 under FRS 11, but there is no net reduction in the tangible value of the Group as a consequence of these transactions.

The second includes a further (and, I believe, final) write-down in the value of the unquoted element of the JellyWorks portfolio. The unquoted book value of this portfolio is now held at below £100,000. During the year we made successful realisations from the portfolio of some £662,000; the residual value of the portfolio including the quoted assets is now approximately £500,000.

During the second half, we also realised £2.7m in cash from the holdings we had accumulated in Illuminator plc as a result of Illuminator's return of cash to its shareholders by way of a special dividend and a tender offer.

During the second half, we cancelled some 67.35m shares for a total consideration of £5.874m. Despite this, because of the strong cash generation in the second half our liquid resources remained approximately £31.7m even after paying for the share buybacks.

### **Strong Balance Sheet**

At the balance sheet date, we had net cash of £25.06m and other near cash (tradeable short dated bonds and commercial paper maturing in the first half of 2003) of £6.60m, giving a total of cash and near cash of £31.7m. In addition there were client loans outstanding of some £559,000. The amount held in alternative asset class activities was £4.21m and was the largest other component of the balance sheet. The holdings are of Puma II, our hedge fund portfolio, and the initial drawdown on Puma Property (discussed below). Some £3.42m of the balance sheet was held in quoted securities, including £750,000 in Inflexion plc in which we have an 8.83% interest. The total direct holdings of private equity stakes comprised only £209,000, only about 0.5 per cent of the balance sheet value.

### **Dividend**

Given the prevailing market conditions and the share repurchase, we do not propose to pay a final dividend for this period. We will consider dividends for subsequent periods depending on how market conditions evolve.

### **Share Buy Back and Tender Offer**

During the period the Group cancelled some 67.35m shares for a total consideration of £5.874m. Following the year end we announced a tender offer to buy in further shares from shareholders. The tender and related proposals were approved by shareholders at an extraordinary general meeting of the Company on 3 March 2003, with each resolution receiving over 99.9% of votes cast in favour. The tender offer remains subject to court approval of a share capital reduction.

We received valid tenders for some 75,426,090 shares at 9p per share. Upon court approval, these shares will be re-purchased and cancelled, reducing the equity base by a further 19.5% and the number of shares in issue to 311,306,623, and leading to an additional cash outflow of approximately £6.9m.

### **Operating Review**

We remain focused on serving entrepreneurs and institutions and providing related services in our four chosen niches.

### **Equity Capital Markets (ECM)**

The Group continued with its plans to develop and integrate brokerage, trading, market making and corporate finance for small to medium sized companies by appointing Simon Fine as Managing Director of this division. Simon was formerly managing director and co-head of Pan European Equity Cash Trading at Lehman Brothers. Further progress in this respect can be anticipated in the course of 2003. There are two principal activities within this division:

#### *Investment banking for small/medium capitalised fast growth companies*

This area remains one of our strengths, even in a very difficult market for smaller companies. We completed three fund raisings for quoted companies during the period, one flotation and two secondary offerings, as well as a number of other advisory transactions. We also continued to grow our client list and were delighted to have been voted runner up in the Growth Company Investor poll in both the best nominated adviser and best AIM stockbroker categories, particularly because the voting is by investing institutions and AIM companies.

*Smaller company market-making*

This activity is capable of generating substantial profitability in an active market but is difficult in a low volume falling market. However, we have continued to build market share and improve our platform. Notably we became one of the two first retail service providers (RSPs) on the new London Stock Exchange gateway which enables retail stockbrokers to execute their trades automatically with any RSP (electronic market-maker connected to the gateway). Additionally, we joined the "bestconnect" service, an electronic order execution system (as a partner with Dresdner Kleinwort Wasserstein) offering execution in over 1,800 UK securities, of which we make markets in approximately 450. Whilst not having a material impact on the Group's trading performance for last year (we went live in December 2002), in the medium term this, together with the Stock Exchange RSP gateway connection, could contribute significantly to the Group's market-making turnover.

**Investment Management and Alternative Assets**

As previously reported, we were delighted that Chris Ring, formerly managing director of NatWest Stockbrokers, joined us to run this activity. Since Chris has joined we have continued to grow discretionary funds under management and in particular the alternative asset class funds. The team has been augmented throughout the year. Following the appointment of Chris Ring in January, we recruited a hedge fund specialist team in the summer and have allocated an additional full time member of staff to develop and market these products.

*Puma II*

We were delighted that the Fund's shareholders voted (with 86% of the votes in favour) to extend the life of the Fund by 2 years to December 2006. I believe this vote of confidence was testament to the skills and diligence of the team who worked relentlessly to seek to maximise value and minimise risk throughout the year. The net assets per share of the fund grew by 0.65% in 2002 and 3.79% since inception, with some £26.15m in cash, of a total of approximately £40m of assets. Of the investments held in its active portfolio, 82% (£11.4m) were in quoted shares and only 18% (£2.5m) in unquoted shares and we rebalanced the portfolio in favour of the old economy (74%) relative to technology (26%). Geographically, 74% was in the UK, 2% in the US and 24% in Israel.

We believe that current conditions offer an excellent opportunity to deploy Puma II's cash and we are actively investing. Whilst no-one can definitively call the bottom of the smaller company market, we are seeing value being offered in our strong deal flow.

*Puma Property Fund*

We are also delighted to have completed the closing of our first commercial property fund launched in partnership with Dawnay, Day & Co, the merchant bank with an excellent track record of investing successfully in UK commercial property. Over 15 years, Dawnay, Day have achieved a compounded return on equity of 50.7 per cent per annum on its property portfolio and now own or manage in joint ventures significantly in excess of £1bn of commercial property throughout the UK.

Shore Capital and Dawnay, Day jointly launched The Puma Property (D.D.) Fund L.P. with a 50:50 interest each in the Fund's general partner. Dawnay, Day have responsibility for sourcing and managing the property investments which are approved by an investment committee in which I participate. As part of Shore Capital's role originating and promoting the Fund we made a pre-commitment to invest £2.5m on the same terms as other investors.

The Fund recently closed with us having raised in excess of the £25m threshold originally set out; a credible outcome in such difficult marketing conditions. The recent drop in medium term interest rates has further enhanced the current opportunity to acquire property on attractive terms and augurs well for the prospects of the Fund.

We hope to launch a second property fund in the course of 2003.

#### *Hedge Funds*

Our portfolio has been expanded both up to and post year end showing further good growth throughout the period. The IRR (in US dollar terms) achieved for 2002 was 17.7% p.a. and since inception was 15.9% p.a., without doubt in the top decile of fund of fund performances. Having strengthened our team during the course of 2002, our fund should finally be launched in the first half of this year. We did not wish to launch the fund until we had built a platform and infrastructure to source sufficient product to ensure that we could be comfortable managing significant sums for third parties.

Our approach is straightforward:-

- back managers with a proven track record who have their own money invested alongside investors and who benefit if we benefit;
- do not seek high risk adjusted return but rather high absolute return whilst accepting volatility from individual managers;
- hedge the volatility of individual managers by diversification to avoid, in so far as is possible, correlation between funds in the portfolio;
- seek as much stability in the target fund's arrangements as possible so that the chances of future returns matching historical returns are maximised:
  - size of fund
  - mix of team
  - business set up
  - market conditions in which the team operates.

#### *Plans for the division*

We look forward to growing the investment management and alternative assets division as a core part of our strategy going forward. The wealth destruction many retail investors have experienced now means that they have lost their 'blind faith' in the stock market and will continue to have more conservative asset allocation for some time to come.

Against this background investors are looking both for structured products with capital guarantees and for alternative asset class investments capable of good absolute return as the "kicker" to the portfolios. Relative return is no longer of interest to many investors. Yet most of the industry is geared to meet the relative return investment approach. This creates a substantial opportunity for those flexible enough to re-engineer their business model.

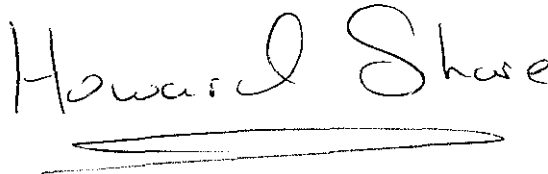
**Current Trading and Prospects**

We said in our recent circular that trading for the Group in 2003 has begun with subdued market conditions, and that prospects for the remainder of the year would be significantly influenced by whether or not conditions improve. Unfortunately, February has proved even tougher than January and activity in equity markets has almost 'ground to a halt' while the world awaits developments in Iraq. Like the rest of the world, we hope this situation is resolved for the good as soon as possible. A rapid improvement in the geopolitical situation would avoid making the pain deeper and longer than it would otherwise have been, but by itself is unlikely to resolve the industry's problems.

The investment banking industry is now aggressively reducing its capacity as it needed to do. Nevertheless, confidence will only return if people's fears of a global slump are allayed. What might trigger this is hard to predict, but a very sharp and sustained drop in oil prices would be one possible catalyst.

**Howard P Shore**

6 March 2003

A handwritten signature in cursive script that reads "Howard Shore". Below the signature is a horizontal line that is slightly wavy and extends across the width of the signature.



## **Corporate Governance**

### **General**

Throughout the year ended 31 December 2002 the Group has been in compliance with the Code provisions set out in Section 1 of the Combined Code on Corporate Governance issued by the UK Listing Authority, with the exception of the matters noted below in respect of the joint role of the Chairman and Chief Executive, not appointing a Nominations Committee, not appointing a senior independent director and the composition of the Audit Committee.

### **Board of Directors**

The Board currently comprises three 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. Two of the non-executive directors are independent. Mr M Shear is the deputy general manager of Bank Leumi (UK) plc, a major shareholder.

Howard 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 do not consider it in the best interests of the Group to split the roles.

The Board has two committees, the Remuneration Committee (see Directors' remuneration report) and the Audit Committee (see below). The Board does not have a Nominations Committee; in view of the size of the Group and of the Board, nominations for senior appointments are considered to be matters for the Board as a whole. The Group has not appointed a senior independent director.

In accordance with the Principles of the Combined Code, Mr M L van Messel and Mr J B Douglas retire and offer themselves for re-election.

### **Audit Committee**

The Board has appointed an Audit Committee that comprises two non-executive Directors, Mr J B Douglas and Mr M Shear, together with Mr G B Shore, and is chaired by Mr J B Douglas. The inclusion of one executive director does not comply with the Combined Code, and the Committee does not have a majority of independent non-executive Directors as Mr M Shear, a non-executive Director, is employed by a major shareholder (see above). However, Mr G B Shore is not involved on a day to day basis with the stockbroking division of the business which represents the largest element of turnover whilst Mr M Shear is entirely independent of executive management. The Board considers the composition of the committee appropriate given the size of the group. The Audit Committee undertakes a detailed review of the Company's half yearly and annual financial reports, is responsible for reviewing whether the accounting policies are appropriate and for monitoring internal compliance and external audit functions including the cost effectiveness, independence and objectivity of the auditors. The committee meets periodically with the auditors to receive a report on matters arising from their work.

### **Going concern**

Having considered the guidance given in the document Going Concern and Financial Reporting: Guidance for Directors of Listed Companies issued in November 1994 by the Going Concern Working Group, the Directors have formed a judgement at the time of approving these financial statements that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis in the financial statements.

### **Internal control**

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

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

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

## **Directors' remuneration report**

### **Introduction**

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 which introduced new statutory requirements for the disclosure of directors' remuneration in respect of periods ending on or after 31 December 2002. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the board has applied the Principles of Good Governance relating to directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the company at which the financial statements will be approved.

The Regulations require the auditors to report to the company's members on the "auditable part" of the Directors' remuneration report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The report has therefore been divided into separate sections for information that is required to be audited and information that is not required to be audited.

### **Information not required to be audited**

#### **Remuneration Committee**

The Board has appointed a Remuneration Committee that comprises two non-executive Directors, Mr J B Douglas and Mr M Shear, together with Mr G B Shore, and is chaired by Mr M Shear. The Remuneration Committee has given full consideration to Section B of the Best Practice Provisions annexed to the Listing Rules of the UK Listing Authority. The principal function of the Remuneration Committee is to determine the Group's policy on executive remuneration. It makes its decisions in consultation with the Chairman and Chief Executive. No director plays a part in any decision about their own remuneration. The Committee meets periodically when it has proposals to consider and in any event no less than once each year.

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

#### **Basic salary**

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

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

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

### Annual bonus payments

In establishing suitable objectives that must be met for each financial year for a cash bonus to be paid, the Committee believes that any incentive compensation awarded should be tied to the interests of the company's shareholders and that the principal measure of those interests is group profitability. In addition, when setting appropriate bonus parameters the Committee is mindful of executive rewards in a comparator group of companies as noted above. Account is also taken of the relative success of the different parts of the business for which the executive directors are responsible and the extent to which the strategic objectives set by the board are being met.

### Pension arrangements

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

### Share options

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

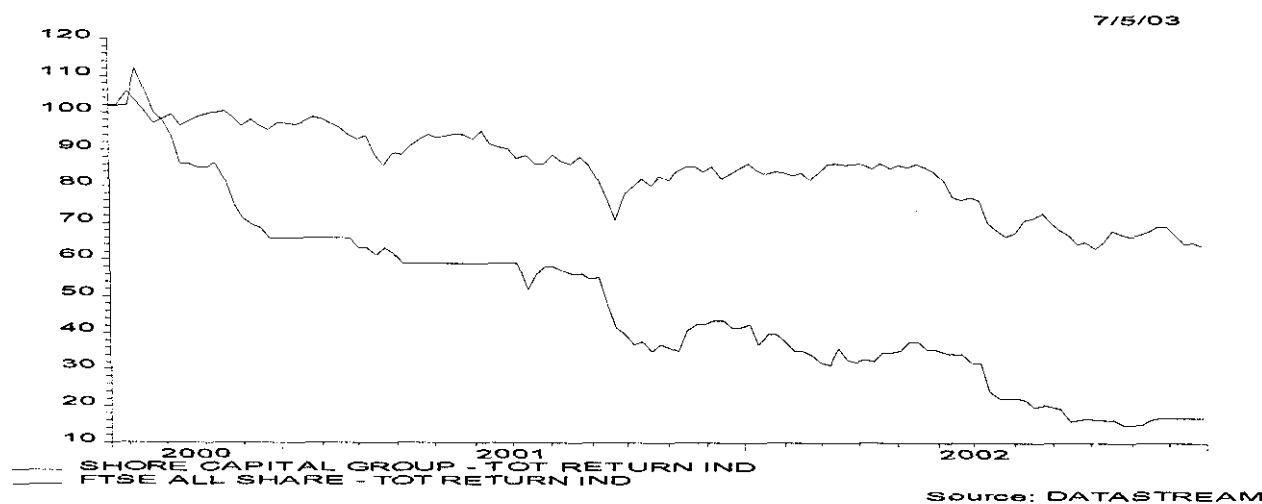
The exercise price of the options granted under the above scheme is no less than the market value of the company's shares at the time when the options are granted. Options granted under the Share Option Plan are not subject to performance criteria other than that the options of the Directors do not vest until the end of three years from the date of grant. Thereafter the option may be exercised for the rest of its ten year life without further test.

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

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

### Performance graph

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



### **Non-executive directors**

Where non-executive directors receive remuneration, they have specific terms of engagement and their remuneration is determined by the board and based on independent surveys of fees paid to non-executive directors of similar companies.

### **Directors' contracts**

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

<b>Name of director</b>	<b>Date of contract</b>
H P Shore	18 December 1997
G B Shore	18 December 1997
M L van Messel	25 September 2000
J B Douglas	27 June 2000
Dr Z Marom	5 April 2000

M Shear does not have a service contract.

### **Audited information**

#### **Directors' emoluments**

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

#### **Director's share options**

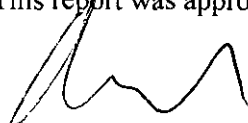
Details of Directors' interests in the Shore Capital Group plc Share Option Plan are given in note 6 to the financial statements.

#### **Directors' pension entitlements**

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

### **Approval**

This report was approved by the board of directors on 29 May 2003 and signed on its behalf by:



**Michael van Messel**

29 May 2003

## Directors' Report

The Directors present their annual report and the audited financial statements of the Group for the financial year ended 31 December 2002.

### Activities and business review

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

A review of the year and future developments is contained in the Chairman's statement on pages 2 to 6.

### Results and dividends

The results for the financial year are set out on page 17. No interim dividend was paid during the year (2001: 0.16p); the directors do not propose a final dividend (2001: 0.28p per share) (2001 total for the year: 0.44p).

### Share capital

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

### Fixed assets

Movements in fixed assets are set out in notes 12 to 14 to the financial statements.

### Directors

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

	2p ordinary shares	
	31 December 2002	31 December 2001
H P Shore	115,147,359	115,147,359
G B Shore	21,652,820	21,652,820
M L van Messel	2,664,042	2,664,042
M Shear *	-	-
Dr Z Marom	501,521	501,521
J B Douglas	600,000	600,000

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

\* M Shear is deputy general manager of Bank Leumi (UK) plc which owned 76,200,000 (2001: 90,250,000) ordinary shares of the Company at 31 December 2002.

### Charitable donations

Charitable donations of £8,000 (2001: £19,000) were made by the Group during the year.

### Creditor payment policy

The policies that the company and Group followed for the payment of creditors in the financial year were:

- for market creditors arising in respect of trades in securities, payment is made on the later of intended settlement date for the transaction or receipt of stock; and
- for other suppliers, payment is made within the later of 45 days after receipt of the invoice or 45 days after receipt of the goods or services concerned. Creditor days of the Group at the year end were 35 days (2001: 37 days).

## Directors' Report (continued)

### Acquisition of the company's own shares

Further to the shareholders' resolutions of 20 May 2002, the company purchased 67,351,933 (2001: nil) ordinary shares with a nominal value of £1,347,000, and representing 14.83% of the company's called-up share capital, for a consideration of £5,874,000, in order to enhance the value of the remaining shares.

### Major shareholdings

Shareholders, other than Directors, holding 3% or more of the shares of the Company at 31 December 2002 were:

	Ordinary Shares	%
Bank Leumi Group	76,964,541	19.90
Easton Investments Ltd	60,000,000	15.52

### Auditors

A resolution to reappoint Deloitte & Touche as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

By order of the Board



M L van Messel  
Secretary

Bond Street House  
14 Clifford Street  
London W1S 4JU

29 May 2003

## **Statement Of Directors' Responsibilities**

United Kingdom company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; 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 Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the Company and 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 plc**

We have audited the consolidated financial statements of Shore Capital Group Plc for the year ended 31 December 2002 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the statement of accounting policies and the related notes 2 to 28. These consolidated financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

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

### **Respective responsibilities of directors and auditors**

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the consolidated financial statements give a true and fair view and whether the consolidated financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the consolidated financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

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

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the directors' remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the consolidated financial statements.

### **Basis of audit opinion**

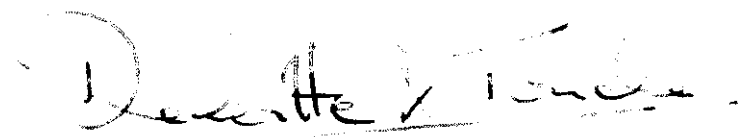
We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements and the part of the directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the consolidated financial statements and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

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

**Opinion**

In our opinion:

- the consolidated financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2002 and of the loss of the group for the year then ended; and
- the consolidated financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche  
Chartered Accountants and Registered Auditors  
London

29 May 2003

## Consolidated Profit And Loss Account

For the year ended 31 December 2002

Year ended 31 December 2002				Year ended 31 December 2001			
		Before exceptional items	Exceptional items	Total	Before exceptional items	Exceptional items	Total
	Note	2002 £'000	2002 £'000	2002 £'000	2001 £'000	2001 £'000	2001 £'000
Turnover	1,2	5,027	(895)	4,132	6,291	(3,184)	3,107
Administrative expenditure		(5,494)	-	(5,494)	(4,462)	(190)	(4,652)
<b>Operating (loss)/profit</b>	3	<u>(467)</u>	<u>(895)</u>	<u>(1,362)</u>	<u>1,829</u>	<u>(3,374)</u>	<u>(1,545)</u>
Loss arising from fixed asset investments	2	(324)	(480)	(804)	(201)	-	(201)
Dividend income		150	-	150	-	-	-
Interest receivable and similar income - excluding interest receivable from client loans	4	1,227	-	1,227	1,960	-	1,960
Interest payable and similar charges	5	<u>(3)</u>	<u>-</u>	<u>(3)</u>	<u>(42)</u>	<u>-</u>	<u>(42)</u>
		<u>1,050</u>	<u>(480)</u>	<u>570</u>	<u>1,717</u>	<u>-</u>	<u>1,717</u>
<b>(Loss)/profit on ordinary activities before taxation</b>	2	583	(1,375)	(792)	3,546	(3,374)	172
Tax on (loss)/profit on ordinary activities	7	<u>(262)</u>	<u>413</u>	<u>151</u>	<u>(1,115)</u>	<u>955</u>	<u>(160)</u>
<b>(Loss)/profit on ordinary activities after taxation</b>		321	(962)	(641)	2,431	(2,419)	12
Equity dividends	9	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,971)</u>	<u>-</u>	<u>(1,971)</u>
<b>(Loss)/profit for the financial year transferred (from)/to reserves</b>	22	<u>321</u>	<u>(962)</u>	<u>(641)</u>	<u>460</u>	<u>(2,419)</u>	<u>(1,959)</u>
<b>(Loss)/earnings per share</b>	10	<u>0.07p</u>		<u>(0.14)p</u>	<u>0.54p</u>		<u>0.00p</u>
Diluted (loss)/earnings per share	10	<u>0.07p</u>		<u>(0.14)p</u>	<u>0.54p</u>		<u>0.00p</u>

All transactions are in respect of continuing operations.

There are no recognised gains and losses for the current financial year and preceding financial year other than those taken into account in arriving at the loss on ordinary activities after taxation of £641,000 (2001: profit of £12,000) shown above.


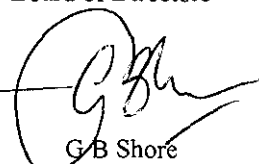
# Consolidated Balance Sheet

As at 31 December 2002

	Note	2002 £'000	2001 £'000
<b>Fixed Assets</b>			
Intangible fixed assets – goodwill	12	405	429
Tangible fixed assets	13	496	646
Investments	14	1,466	2,085
Investment in own shares	6.c, 14	-	1,000
		<u>2,367</u>	<u>4,160</u>
<b>Current Assets</b>			
Bull positions and other holdings	15	13,215	6,613
Debtors	16	4,057	5,689
Cash at bank and in hand	17	27,099	41,906
		<u>44,371</u>	<u>54,208</u>
<b>Creditors - amounts falling due within one year</b>	18	<u>(4,733)</u>	<u>(9,848)</u>
<b>Net Current Assets</b>		<u>39,638</u>	<u>44,360</u>
<b>Total Assets less Current Liabilities</b>		<u>42,005</u>	<u>48,520</u>
<b>Provision for Liabilities and Charges</b>	19	<u>-</u>	<u>-</u>
		<u>42,005</u>	<u>48,520</u>
<b>Capital and Reserves</b>			
Called up share capital	21,22	7,735	9,081
Share premium account	22	6,775	6,775
Merger relief reserve	22	26,653	26,653
Capital redemption reserve	22	1,376	30
Other reserve	22	78	78
Profit and loss account	22	(612)	5,903
<b>Total Equity Shareholders' Funds</b>	22	<u>42,005</u>	<u>48,520</u>

Approved by the Board of Directors on 29 May 2003.

Signed on behalf of the Board of Directors

H P Shore  
Director

G B Shore  
Director


# Company Balance Sheet


As at 31 December 2002

	Note	2002 £'000	2001 £'000
<b>Fixed Assets</b>			
Tangible fixed assets	13	30	49
Investments	14	32,485	32,485
Investment in own shares	6.c, 14	-	1,000
		<u>32,515</u>	<u>33,534</u>
<b>Current Assets</b>			
Debtors	16	12,290	5,162
Cash at bank and in hand	17	1,651	5,479
		<u>13,941</u>	<u>10,641</u>
<b>Creditors - amounts falling due within one year</b>	18	<u>(3,594)</u>	<u>(1,621)</u>
<b>Net Current Assets</b>		<u>10,347</u>	<u>9,020</u>
<b>Total Assets less Current Liabilities</b>		<u>42,862</u>	<u>42,554</u>
<b>Provision for Liabilities and Charges</b>	19	<u>-</u>	<u>-</u>
		<u>42,862</u>	<u>42,554</u>
<b>Capital and Reserves</b>			
Called up share capital	21, 23	7,735	9,081
Share premium account	23	6,775	6,775
Merger relief reserve	23	26,653	26,653
Capital redemption reserve	23	1,376	30
Profit and loss account	23	323	15
<b>Equity Shareholders' Funds</b>	23	<u>42,862</u>	<u>42,554</u>

Approved by the Board of Directors on 29 May 2003.

Signed on behalf of the Board of Directors

  
 H P Shore  
 Director

  
 G B Shore  
 Director

## **Consolidated Cash Flow Statement**

**For the year ended 31 December 2002**

	Note	2002 £'000	2001 £'000
Net Cash (Outflow)/Inflow From Operating Activities	25	(8,357)	1,944
Returns On Investments And Servicing Of Finance	27	1,450	1,862
Taxation		(3)	(2,853)
Capital Receipts And Financial Investment	27	777	18
Equity Dividends Paid		<u>(1,254)</u>	<u>(1,971)</u>
Cash Outflow Before Use Of Liquid Resources And Financing		(7,387)	(1,000)
Financing (Repurchase of Own Shares)	27	(5,874)	-
(Decrease) In Cash In The Year	26	<u><u>(13,261)</u></u>	<u><u>(1,000)</u></u>

## **Notes To The Accounts**

**For the year ended 31 December 2002**

### **1. Accounting Policies**

The financial statements are prepared in accordance with applicable United Kingdom law and accounting standards. The particular accounting policies adopted are as follows:

#### **Accounting convention**

The financial statements are prepared under the historical cost convention apart from trading positions which are valued as detailed below.

#### **Turnover**

Turnover includes the net profit/loss on principal trading, commission income, corporate advisory fees, management fees, other ancillary fees and clients' loan interest.

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.

#### **Basis of consolidation**

The Group financial statements consolidate the financial statements of the Company and all subsidiaries for the financial year ended 31 December 2002.

#### **Trade date accounting**

Turnover is arrived at under the principles of trade date accounting for Stock Exchange transactions.

#### **Bull and bear trading positions**

Bull and bear positions in securities are valued at closing out prices at the close of business on the balance sheet date, namely bull positions at the bid price and bear positions at the offer price (adjusted for any discount based on the size and liquidity of the holding). Positions in unquoted securities are valued at the lower of cost and net realisable value.

#### **Depreciation**

Depreciation is calculated so as to write off the cost of tangible fixed assets by equal annual instalments over their estimated useful lives at the following rates:-

Leasehold premises-over the unexpired term of the lease

Fixtures and equipment-25% per annum

Motor vehicles-16.7% per annum

#### **Property and operating leases**

Rentals paid under operating leases are charged to profit and loss account evenly over the primary period of the contract.

#### **Pension costs**

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

#### **Work in progress**

In the case of corporate 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, fees which will become due but are not yet invoiced are accounted for as work in progress. Where such fees are contingent on the outcome of a transaction they are only accounted for after the transaction has exchanged.

## **NOTES TO THE ACCOUNTS**

**For the financial year ended 31 December 2002**

### **1. Accounting Policies (continued)**

#### **Taxation**

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted by the balance sheet date.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. These differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements and deferred taxation is provided thereon at the anticipated tax rates.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

FRS19 has been adopted for the first time in these financial statements. There has been no effect on the comparative figures as a result of this.

#### **Foreign exchange**

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

#### **Intangible fixed 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. Such goodwill is capitalised and amortised through the profit and loss account on a straight line basis over the lower of 20 years and the estimated useful life of the assets. Where purchased goodwill is negative, a periodic test is carried out to determine the amount that should be recognised in the profit and loss account.

#### **Fixed asset investments**

Investments in unlisted securities held as fixed assets are valued by the Directors at the most recent available representative arm's length price. Where such securities are listed, they are valued by reference to the market price and the marketability of the shares. Any excess of the valuation over cost is credited to the revaluation reserve and any deficit is charged to the profit and loss account.

#### **Investment in subsidiaries**

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

#### **Investment in own shares**

Shares in the Group that were held by the Employee Benefit Trust and were not yet gifted unconditionally to specific employees were carried at cost less any provision that may have been required for impairment in value.



## Notes To The Accounts

For the financial year ended 31 December 2002

### 2. Analysis Of Turnover And Loss Before Tax

Turnover	Year ended 31 December 2002			Year ended 31 December 2001		
	Before exceptional items	Exceptional items	Total	Before exceptional items	Exceptional items	Total
	2002 £'000	2002 £'000	2002 £'000	2001 £'000	2001 £'000	2001 £'000
Investment banking activities	5,027	(895)	4,132	6,291	(3,184)	3,107
	<u>5,027</u>	<u>(895)</u>	<u>4,132</u>	<u>6,291</u>	<u>(3,184)</u>	<u>3,107</u>
<b>(Loss)/profit before taxation</b>						
Investment banking activities	583	(1,375)	(792)	3,546	(3,374)	172
	<u>583</u>	<u>(1,375)</u>	<u>(792)</u>	<u>3,546</u>	<u>(3,374)</u>	<u>172</u>

No segmental breakdown by level of net assets is given as the assets used all related to the investment banking activities. No material amounts of turnover or (loss)/profit before tax are generated outside of the UK.

#### Exceptional items

The exceptional loss within turnover of £895,000 (2001: £3,184,000) relates to the net loss attributable to the current period arising from the portfolio of holdings acquired from JellyWorks plc during the year ended 31 December 2000.

Shares in the group held by the Shore Capital Group Employee Benefit Trust and previously disclosed as Investment in Own Shares, were sold during the year as part of the group's programme of share buybacks. The exceptional loss of £480,000 arising from fixed asset investments relates to the diminution in value of these shares.

### 3. Operating Loss

	2002 £'000	2001 £'000
Operating loss is stated after charging the following:		
Auditors' remuneration - audit fees - current year	50	37
- underprovision from prior year	14	
- non-audit fees	66	64
Depreciation	176	172
Amortisation of goodwill	24	24
Property lease rentals	235	221
Loss on disposal of fixed assets	10	-
	<u>          </u>	<u>          </u>

## Notes To The Accounts

For the financial year ended 31 December 2002

### 4. Interest Receivable And Similar Income

	2002 £'000	2001 £'000
Bank interest	910	1,830
Other interest receivable	317	130
	<u>1,227</u>	<u>1,960</u>

Loan interest receivable from client lending is included within turnover.

### 5. Interest Payable And Similar Charges

	2002 £'000	2001 £'000
Bank loans and overdrafts repayable within five years	2	22
Other interest payable	1	20
	<u>3</u>	<u>42</u>

### 6. Employees and Directors

#### a) Employee numbers

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

	2002 No.	2001 No.
<b>Investment banking activities:</b>		
Securities	27	27
Corporate Advisory	9	7
	<u>36</u>	<u>34</u>

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

	2002 £'000	2001 £'000
Wages and salaries	2,042	1,647
Commission	181	234
Social security costs	254	219
Pension costs	68	64
	<u>2,545</u>	<u>2,164</u>

## Notes To The Accounts

For the financial year ended 31 December 2002

### 6. Employees and Directors (continued)

#### c) Employee Benefit Trust

Investment in Own Shares comprised shares in the Group held by an Employee Benefit Trust. It was set up to acquire shares in the Group over which a Board of Trustees, in consultation with the directors of the company, have the power to grant options for the benefit of the employees of the Group. Such options will normally vest over a number of years. As at 31 December 2002, the Trust no longer held any ordinary shares in the Group (2001: 6,114,874) and accordingly no options were outstanding at that date (2001: 3,785,062).

#### d) Employee Share Option Plan

The Group maintains a Share Option Plan under which present and future employees of the Group may be granted options to subscribe for up to 10% of the Group's issued share capital from time to time (on a fully diluted basis). The plan is used to attract and retain high calibre employees to continue to develop and expand the business of the Group. Such options are granted by the Board and may be exercised up to ten years from the date of grant. As at 31 December 2002, employees had been granted 35,255,126 (2001: 20,029,959) options under the plan representing 8.35% of the Group's issued share capital on a fully diluted basis.

#### e) Emoluments of the Directors

2002	Gross salary	Bonus and other	Fees	Pension Contributions	Benefits	Total
	£'000	£'000	£'000	£'000	£'000	£'000
H P Shore	150	90	-	-	26	266
G B Shore	128	30	-	10	4	172
M L van Messel	75	15	-	8	2	100
M Shear	-	-	-	-	-	-
Dr Z Marom	-	25	5	-	-	30
J B Douglas	-	20	5	-	-	25
	<u>353</u>	<u>180</u>	<u>10</u>	<u>18</u>	<u>32</u>	<u>593</u>

2001	Gross salary	Bonus and other	Fees	Pension Contributions	Benefits	Total
	£'000	£'000	£'000	£'000	£'000	£'000
H P Shore	120	13	-	-	26	159
G B Shore	120	6	-	10	12	148
M L van Messel	60	6	-	6	1	73
M Shear	-	-	-	-	-	-
Dr Z Marom	-	20	5	-	-	25
J B Douglas	-	25	5	-	-	30
	<u>300</u>	<u>70</u>	<u>10</u>	<u>16</u>	<u>39</u>	<u>435</u>

## Notes To The Accounts

For the financial year ended 31 December 2002

### 6. Employees and Directors (continued)

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

	Number of options over unissued ordinary shares	Date of grant	Exercise price per ordinary share	Exercise date
H P Shore	6,068,331	15 January 2002	20.5p	Between 15 January 2005 and 14 January 2012
G B Shore	1,685,647	15 January 2002	20.5p	Between 15 January 2005 and 14 January 2012
M L van Messel	842,823	15 January 2002	20.5p	Between 15 January 2005 and 14 January 2012
	500,000	21 November 2002	11.0p	Between 21 November 2005 and 20 November 2012
J B Douglas	276,066	21 November 2002	16.35p	Before 26 June 2010

On 15 January 2002, options held at the start of the year over unissued ordinary shares, that had an exercise price per ordinary share of 29.66p and an exercise date between 5 May 2003 and 4 May 2010, were surrendered and re-issued in the same amounts with an exercise price per ordinary share of 20.5p and an exercise date between 15 January 2005 and 14 January 2012. Options previously held over issued ordinary shares that related to options granted pursuant to the Shore Capital Group plc Employee Benefit Trust have been surrendered and replaced on 21 November 2002 by options over unissued ordinary shares granted pursuant to the Shore Capital Group plc Share Option Plan. No options were exercised during the year. The closing price of the shares at 31 December 2002 was 8.75p and the range during the year was 7.75p to 22.5p.

### g) Related party transactions

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

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

Transactions between group companies that have been eliminated on consolidation have not been disclosed due to an exemption afforded by FRS8.

### 7. Tax On (Loss)/Profit On Ordinary Activities

	2002 £'000	2001 £'000
The tax charge comprises:		
Provision for United Kingdom corporation tax (credit)/charge at 30% (2001: 30%)	(133)	181
Overprovision in prior years	(3)	-
Movement in deferred tax due to timing differences	(15)	(21)
	<u>(151)</u>	<u>160</u>

## Notes To The Accounts

For the financial year ended 31 December 2002

### 7. Tax On Profit On Ordinary Activities (continued)

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

	2002 £'000	2001 £'000
(Loss)/profit on ordinary activities before tax	(792)	172
Tax thereon at 30%	(238)	52
Effects of:		
Expenses not deductible for tax purposes	36	41
Depreciation in excess of capital allowances	17	24
Unrealised capital losses	15	64
Other capital losses	37	-
	(133)	181

### 8. Profit Of Parent Company

As permitted by Section 230 of the Companies Act 1985 the profit and loss account of the parent company is not presented as part of these accounts. The parent company's profit after tax for the financial year amounted to £6,182,000 (2001: £1,968,000).

### 9. Dividends

	2002 £'000	2001 £'000
No interim dividend paid (2001: 0.16p per share)	-	717
No final dividend proposed (2001: 0.28p per share)	-	1,254
	-	1,971

The trustees of the Employee Benefit Trust waived the entitlement of the shares held in the trust to the above dividends.

### 10. Loss 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 FRS14 were as follows:

	2002		2001	
	Basic	Diluted	Basic	Diluted
(Loss)/Earnings (£'000)	(641)	(641)	12	12
Number of shares	442,797,192	442,797,192	447,969,772	449,456,581
(Loss)/Earnings per share	(0.14)p	(0.14)p	0.00p	0.00p

## Notes To The Accounts

For the financial year ended 31 December 2002

### 10. Loss per Share (continued)

#### Calculation of number of shares

	2002		2001	
	Basic	Diluted	Basic	Diluted
At 1 January	447,969,772	447,969,772	447,969,772	447,969,772
Weighted average number of shares cancelled	(5,172,580)	(5,172,580)	-	-
Dilutive effect of share option schemes	-	-	-	1,486,809
At 31 December	<u>442,797,192</u>	<u>442,797,192</u>	<u>447,969,772</u>	<u>449,456,581</u>

In addition to the above, and as permitted by FRS14, the earnings per share before exceptional losses has been calculated using the following figures:

	2002		2001	
	Basic	Diluted	Basic	Diluted
Earnings (£'000)	321	321	2,431	2,431
Number of shares (as above)	442,797,192	442,797,192	447,969,772	449,456,581
Earnings per share	<u>0.07p</u>	<u>0.07p</u>	<u>0.54p</u>	<u>0.54p</u>

### 11. Lease Commitments

#### Operating leases

The Group is committed to making the following lease rental payments on leasehold premises exclusive of services and rates during the next financial year.

	2002 £'000	2001 £'000
Leases expiring between five and ten years	<u>176</u>	<u>176</u>

## Notes To The Accounts

For the financial year ended 31 December 2002

### 12. Intangible Fixed Assets

	Goodwill arising on the acquisition of: Minority interest in subsidiary £'000
<b>Cost</b>	
At 1 January 2002	477
Additions	-
At 31 December 2002	<u>477</u>
<b>Amortisation</b>	
At 1 January 2002	48
Charge for the year	24
At 31 December 2002	<u>72</u>
<b>Net Book Value</b>	
At 31 December 2002	<u>405</u>
At 31 December 2001	<u>429</u>

### 13. Tangible Fixed Assets - Group

	Leasehold premises £'000	Fixtures and equipment £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>				
At 1 January 2002	289	500	259	1,048
Additions	-	76	-	76
Disposals	-	-	(102)	(102)
At 31 December 2002	<u>289</u>	<u>576</u>	<u>157</u>	<u>1,022</u>
<b>Depreciation</b>				
At 1 January 2002	57	244	101	402
Charge for the year	30	115	31	176
Disposals	-	-	(52)	(52)
At 31 December 2002	<u>87</u>	<u>359</u>	<u>80</u>	<u>526</u>
<b>Net Book Value</b>				
At 31 December 2002	<u>202</u>	<u>217</u>	<u>77</u>	<u>496</u>
At 31 December 2001	<u>232</u>	<u>256</u>	<u>158</u>	<u>646</u>

## Notes To The Accounts

For the financial year ended 31 December 2002

### 13. Tangible Fixed Assets (continued) - Company

	Fixtures and equipment £'000
<b>Cost</b>	
At 1 January	92
Additions	2
	<hr/>
At 31 December 2002	94
	<hr/>
<b>Depreciation</b>	
At 1 January 2002	43
Charge for the year	21
	<hr/>
At 31 December 2002	64
	<hr/>
<b>Net Book Value</b>	
At 31 December 2002	30
	<hr/>
At 31 December 2001	49
	<hr/>

### 14. Investments

#### Investments held as Fixed Assets - Group

	Listed investments £'000	Unlisted investments £'000	Total £'000
At 1 January 2002	735	1,350	2,085
Additions	101	-	101
Disposals	(541)	(135)	(676)
(Impairment)/Revaluation	(51)	7	(44)
	<hr/>	<hr/>	<hr/>
At 31 December 2002	244	1,222	1,466
	<hr/>	<hr/>	<hr/>

The impairment of listed investments is included in the profit and loss account within the heading of Loss arising from fixed asset investments. Based on the year end closing prices, the market value of the listed investments is £244,000.

#### Additional information on unlisted investments:

The unlisted investments comprise an investment in The Puma (II) Fund, an investment fund incorporated in the Cayman Islands. Shore Capital Limited has entered into an investment management contract to procure the services of a Group company to carry out the investment management of the fund. Shore Capital Limited has procured Shore Capital Stockbrokers Limited to carry out these responsibilities. Based on the year end net asset value, the value of the holding is £1,261,000.



## Notes To The Accounts

For the financial year ended 31 December 2002

### 14. Investments (continued)

#### Investments held as Fixed Assets – Company

Shares in  
subsidiary  
undertakings  
£'000

At 1 January and 31 December 2002 32,485

#### 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 Stockbrokers Limited	England and Wales	Broker/dealer	100%
Shore Capital and Corporate Limited	England and Wales	Corporate advisers	100%
Shore Capital Finance Limited	England and Wales	Credit provider	100%
Shore Capital Limited	England and Wales	Management company	100%
Shore Capital Investments Limited	England and Wales	Holds investments	100%
Shore Capital Trading Limited	England and Wales	Trader of holdings in securities	100%
JellyWorks Limited	England and Wales	Dormant	100%
<b>Nominee Company</b>			
Puma Nominees Limited	England and Wales	Nominee company	100%

#### Investment in Own Shares

Investment in  
own shares  
£'000

At 1 January 2002	1,000
Additions	-
Disposals	(520)
(Impairment)	(480)
At 31 December 2002	<u>-</u>

Details of the impairment of the investment in own shares are included in Note 2.

## Notes To The Accounts

For the financial year ended 31 December 2002

### 15. Trading positions

	Group 2002 £'000	Company 2002 £'000	Group 2001 £'000	Company 2001 £'000
Listed holdings at market value				
Equities	3,422	-	2,686	-
Debt instruments	6,602	-	-	-
Unlisted holdings:				
Acquired from JellyWorks plc	98	-	2,109	-
Other (including hedge funds)	3,093	-	1,818	-
	<u>13,215</u>	<u>-</u>	<u>6,613</u>	<u>-</u>

### 16. Debtors

	Group 2002 £'000	Company 2002 £'000	Group 2001 £'000	Company 2001 £'000
Margin loans to clients	559	-	1,091	-
Trade debtors	2,490	-	3,559	-
Work in progress	-	-	148	-
Amount owed by subsidiary undertakings	-	11,889	-	5,148
Other debtors	333	372	588	3
Prepayments and accrued income	620	29	263	11
Deferred tax	55	-	40	-
	<u>4,057</u>	<u>12,290</u>	<u>5,689</u>	<u>5,162</u>

Other debtors do not include any amounts that are due after more than one year (2001: £281,000).

### 17. Cash At Bank And In Hand

#### Group

Cash at bank and in hand of £27,099,000 (2001: £41,906,000) includes £520,000 (2001: nil) held in the Shore Capital Group Employee Benefit Trust.

#### Company

Cash at bank and in hand of £1,651,000 (2001: £5,479,000) includes £520,000 (2001: nil) held in the Shore Capital Group Employee Benefit Trust.

The cash held in the Shore Capital Group Employee Benefit Trust arises from the disposal of the Trust's holding of shares in the group. The Trust was established to benefit is retained for the remuneration of the group's the employees and former employees of the group and their immediate families.

## Notes To The Accounts

For the financial year ended 31 December 2002

### 18. Creditors - Amounts Falling Due Within One Year

	Group 2002 £'000	Company 2002 £'000	Group 2001 £'000	Company 2001 £'000
Bear positions	575	-	750	-
Bank overdrafts (partially secured)	2,035	43	3,581	8
Trade creditors	1,199	342	3,296	-
Amounts owed to subsidiary undertakings	-	2,939	-	153
Other creditors	136	12	117	1
UK corporation tax	-	-	49	(33)
Other taxation and social security	71	25	66	-
Accruals and deferred income	717	233	735	238
Proposed dividends	-	-	1,254	1,254
	<u>4,733</u>	<u>3,594</u>	<u>9,848</u>	<u>1,621</u>

A subsidiary company's bank overdraft facilities are secured by a floating charge over the assets of that company. At 31 December 2002 the subsidiary's overdraft was £1,984,000 (2001: £2,450,000).

Another subsidiary company has given a fixed and floating charge over its assets to its bankers in respect of a facility advance. At 31 December 2002 the subsidiary was utilising £nil (2001: £1,082,000) of the facility.

### 19. Provisions For Liabilities And Charges

Group and Company:

	2002 £'000	2001 £'000
Provision for national insurance contributions on share options	-	30
At 1 January 2002	-	(30)
(Release)/charge for the year	-	-
At 31 December 2002	-	-

A deferred tax asset at 31 December 2002 of £55,000 (2001: £40,000) is included in debtors. There was no unprovided deferred tax. The asset has been recognised as the directors anticipate that there will be suitable taxable profits in the future from which the timing differences can be deducted.

### 20. Capital Commitments

As at 31 December 2002 the Group had capital commitments of £2,280,000 (2001: nil) in respect of its holding in The Puma Property (DD) Fund L.P.

## Notes To The Accounts

For the financial year ended 31 December 2002

### 21. Called Up Share Capital

	2002 £'000	2001 £'000
<b>Authorised</b>		
625,000,000 ordinary shares of 2p each	12,500	12,500
<b>Allotted and fully paid</b>		
386,732,713 (2001: 454,084,646) ordinary shares of 2p	7,735	9,081

Between 13 November 2002 and 30 December 2002 the Company purchased and cancelled 67,351,933 ordinary shares of 2p each (including all the shares held by the Shore Capital Group Employee Benefit Trust) at prices ranging from 8.5p to 9.0p. The aggregate consideration for these purchases was £5,874,000. The shares were re-purchased and cancelled in order to enhance the value of the remaining shares.

Following the year end the Company has carried out a tender offer to buy in further shares from shareholders at 9p. This completed on 28 April 2003 and 75,426,090 shares were re-purchased and cancelled.

### 22. Statement Of Movements in Capital and Reserves - Consolidated

	Called up, allotted and fully paid up share capital £'000	Share premium account £'000	Merger relief reserve £'000	Capital redemption reserve £'000	Other reserve £'000	Profit and loss account £'000	Total 2002 £'000
Balance at 1 January	9,081	6,775	26,653	30	78	5,903	48,520
Profit for the financial year	-	-	-	-	-	(641)	(641)
Shares cancelled	(1,346)	-	-	-	-	-	(1,346)
Transfer to Capital Redemption Reserve	-	-	-	1,346	-	(1,346)	-
Repurchase of shares	-	-	-	-	-	(4,528)	(4,528)
Balance at 31 December	7,735	6,775	26,653	1,376	78	(612)	42,005

## Notes To The Accounts

For the financial year ended 31 December 2002

### 23. Statement Of Movements in Capital and Reserves - Company

	Called up, allotted and fully paid up share capital £'000	Share premium account £'000	Merger relief reserve £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total 2002 £'000
Balance at 1 January	9,081	6,775	26,653	30	15	42,554
Profit for the financial year	-	-	-	-	6,182	6,182
Shares cancelled	(1,346)	-	-	-	-	(1,346)
Transfer to Capital Redemption Reserve	-	-	-	1,346	(1,346)	-
Repurchase of shares	-	-	-	-	(4,528)	(4,528)
Balance at 31 December	7,735	6,775	26,653	1,376	323	42,862

### 24. Financial Instruments

The Group's financial instruments comprise, for the purpose of FRS13, cash and liquid resources, trade debtors and creditors arising from operations together with bull and bear positions in equities and tradeable debt instruments. Debt instruments comprise commercial paper that is issued with an agreed yield to maturity and corporate bonds that carry a fixed coupon. There is a liquid market in these instruments. The main risks arising from the Group's financial instruments are market risk and currency risk. The Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

The interest bearing financial assets and liabilities of the Group comprise cash at bank, bank overdrafts and margin loans to clients as shown in Notes 16 and 28. Cash at bank receives, and bank overdrafts pay, interest at floating rates linked to either bank base rates or money market rates. The group has a £10m overdraft facility renewable annually and a £5m revolving credit facility that is repayable no earlier than June 2005. The margin loans to clients receive interest at a monthly rate that is reviewed as a consequence of movements in money market rates.

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

	2002 £'000	2001 £'000
Equities	(357)	(956)
Debt instruments	271	-
Currency hedges	172	36
	86	(920)

## Notes To The Accounts

For the financial year ended 31 December 2002

### 24. Financial Instruments (continued)

#### a) Market Risk

The Group is exposed to market risk in respect of its trading in equities. The Group carries out a market making activity primarily in small company stocks. This activity is carried out both as a means of supporting its role as advisor and sponsor to companies issuing equities on the UK stock market and to strengthen its presence in the UK small company sector. It also undertakes principal dealing. The fair value at the year end of positions arising from these activities is disclosed in the Financial Statements in Note 15 for bull positions and Note 18 for bear positions.

Through a combination of sales and reductions in market value of the portfolio of holdings acquired from JellyWorks plc, the Group has materially reduced the level of bull positions held in the principal trading activity. The year end positions arising from market making activities are considered to be representative of the Group's exposure throughout the year. Both the permitted size of each trading book and the size of individual positions are predetermined and dealers are set prescribed limits within which they can deal. Day to day risk monitoring is carried out by the Director of Dealing and the Compliance Department.

#### b) Currency Risk

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

	2002 £'000	2001 £'000
Held in United States dollars	1,199	1,465
Held in Euros	73	167
	<u>1,272</u>	<u>1,632</u>

The Group maintains a currency hedge in respect of these positions in order to reduce the currency risk that would otherwise arise. As at the year end the amount that had been hedged was £1,118,000 (2001: £1,632,000).

## Notes To The Accounts

For the financial year ended 31 December 2002

### 25. Reconciliation Of Operating (Loss) To Operating Cash Flows

	2002 £'000	2001 £'000
Operating (loss)	(1,362)	(1,545)
Depreciation charges	176	172
Amortisation charges	24	24
Loss on sale of fixed assets	10	-
(Decrease) in provision for NIC on options	-	(30)
Decrease in secured client loans	532	1,387
Decrease in debtors	1,129	756
(Decrease) in creditors	(2,091)	(1,907)
(Decrease) in bear positions	(175)	(308)
Decrease in bull positions	2	3,395
(Increase) in tradeable loan instruments	(6,602)	-
Net cash (outflow)/inflow from operating activities	<u>(8,357)</u>	<u>1,944</u>

Operating cash flows in 2001 included disposals of bull positions generating £2,194,000 of cash, and costs associated with the listing of the Group's shares on the Official List of the London Stock Exchange of £190,000, both of which formed part of exceptional items.

### 26. Reconciliation Of Net Cash Flow Movement To Movement In Net Funds

	2002 £'000	2001 £'000
(Decrease) in cash in the period	<u>(13,261)</u>	<u>(1,000)</u>
Change in net funds (See note 28)	(13,261)	(1,000)
Net funds at 1 January	<u>38,325</u>	<u>39,325</u>
Net funds at 31 December	<u>25,064</u>	<u>38,325</u>

### 27. Gross Cash Flows

	2002 £'000	2001 £'000
<b>Returns on investment and servicing of finance</b>		
Interest received	1,303	1,904
Interest paid	(3)	(42)
Dividends received	150	-
	<u>1,450</u>	<u>1,862</u>

# Notes To The Accounts

For the financial year ended 31 December 2002

## 27. Gross Cash Flows (continued)

	2002 £'000	2001 £'000
<b>Capital expenditure</b>		
Purchase of tangible fixed assets	(76)	(145)
Sale of tangible fixed assets	40	-
Purchase of other investments	(101)	
Sale of other investments	914	163
	<u>777</u>	<u>18</u>
	2002 £'000	2001 £'000
<b>Financing</b>		
Repurchase of own shares (including related stamp duty)	(5,874)	-
	<u>(5,874)</u>	<u>-</u>

## 28. Analysis Of Changes In Net Funds

	As at 1 January 2002 £'000	Cashflows £'000	As at 31 December 2002 £'000
Cash at bank and in hand	41,906	(14,807)	27,099
Overdraft	(3,581)	1,546	(2,035)
	<u>38,325</u>	<u>(13,261)</u>	<u>25,064</u>