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Shore Capital Group plc

Report And Financial Statements
31 December 2005



Officers and Professional Advisers

Directors

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

*Non-executive

Secretary

J S Paisner

Registered Number

2089582

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Registrar

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20 Stratford Place
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Chairman's Statement

Introduction

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

We again expanded our alternative asset class offerings during the year with 3 new launches (together with Puma Brandenburg in 2006) and good performance from our established funds. This translated into a growing contribution from our balance sheet holdings and carried interests in these products as well as from the management fees.

Financial Review

Revenue for the year was £27.6m (2004: £17.0m), an increase of 62.4 per cent. I am pleased to note that growth in the second half of the year was stronger than in the first half: second half revenue was £15.5m, up 73.0 per cent on 2004 H2 of £9.0m. Administrative expenses grew 36.0 per cent, reflecting the mix of fixed costs and activity-related staff remuneration. As a result the Group achieved an operating profit of £12.6m (2004: £5.9m), an increase of 111.5 per cent.

Interest income was £404,000 (2004: £542,000), the reduction primarily being because more of our balance sheet was deployed in our funds and less in cash. Finance costs rose, reflecting higher borrowings within the stockbroking business, where our market-makers fund the difference between settlement dates on purchases (usually T+3) and sales (often T+10 for counter-parties acting for retail clients). Investment income has now been reclassified under IFRS (see note 14 to the Statements). The net effect of these changes was to give a contribution from net investment income and finance costs of £80,000 (2004: £565,000). Profit before tax was £12.7m (2004: £6.5m), generating earnings per share of 3.07p (2004: 1.61p), an increase of 90.7 per cent.

The operating margin and net margin before tax both rose, reflecting the mix of income and operational gearing. The overall operating margin was 45.5 per cent in the year (2004: 35.1 per cent). ECM, which represented 59.6% of Group income, saw its operating margin rise to 33.2 per cent (2004: 23.8 per cent). The overall net margin before tax was 45.8 per cent (2004: 38.2 per cent).

Balance Sheet

Our balance sheet continues to grow. Total equity was £44.0m (2004: £35.3m), of which cash represented £7.7m and net cash totalled £2.6m. £8.4m net was held in quoted equities and a further £21.5m in the various Puma Funds and other liquid hedge funds. The balance of £11.5m mainly comprised net market debtors.

Return on Capital Employed

I commented in our last full year results that we regard return on total capital employed as a key measure of the performance of the Group as a whole. We are therefore pleased to report that return before tax on total capital employed was 35.9 per cent for the year (2004: 20.6 per cent).

Dividend

In the light of the positive trading results for the year, we propose a final dividend of 0.5p per share, making 0.875p per share for 2005 as a whole (2004: 0.665p). This represents a distribution of approximately 28 per cent of profits after tax and minority interests. The dividend is expected to be paid on Wednesday, 24th May 2006 to shareholders on the register as at Friday, 24th March 2006.

Operating Review

Our strategy is to concentrate on two areas of the investment industry where by serving entrepreneurs, companies and institutions we can be strong and profitable participants: these are equity capital markets and principal finance/alternative asset class funds.

Equity Capital Markets

This business offers a full service in equity capital markets, spanning 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. It now has a staff of some 55 people and is continuing to recruit. Reflecting this growth, we recently opened a new trading floor which provides the space to expand, both in sales and trading and elsewhere in the Group using the space vacated.

Research and Sales

Our institutional sales and research activity is now well established and highly regarded by fund-managers. This is reflected in its continued growth in revenue from secondary business, at the same time as supporting significantly more primary activity. We have established client relationships with nearly all significant fund management groups in the UK dealing regularly in the types of equities we cover and we continue to widen the range of contacts we speak to in the major fund managers. We also continued to expand our sales team in 2005 with the aim of capitalising on the quality of our research product and order flow.

Our team of analysts now research over 250 stocks in a broad range of sectors within consumer related industries, technology, financial services, property and construction; we plan to continue to increase our coverage and to add analysts of quality where we can see a market opportunity.

Market-making

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

We have again increased the number of stocks covered by 33 per cent (now 1,000, compared to just over 750 a year ago) and maintain strong relationships with the major retail houses which are our main customers. We will continue to seek to widen the range of electronic channels through which we deliver our Retail Service Provider service, building on the success in 2005.

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

We were delighted to see statistics from the London Stock Exchange which show that by number of stocks covered we are now the second largest market-maker on AIM and the third largest on the London Stock Exchange as a whole.

Corporate Finance

The corporate finance team continued to increase the corporate retained list (now 47 public companies) and completed 21 transactions during 2005, a record number. As a result both retainers and transaction fees showed good growth. Indeed the percentage increase achieved by this department was the largest within the ECM business. This activity has scope to catch up with the growth of our institutional sales and broking business and is growing rapidly, benefiting from our strength as a full service ECM. A good measure is the increasing size of our fund-raising, with the Blackstar Investors fund-raising in January 2006 raising £35m and Puma Brandenburg in March 2006 raising £185m, both of which were oversubscribed.

During the year we brought 10 new companies to the market. We also undertook a number of other placings and were successfully involved in 5 public company offers, 3 where offers proceeded and 2 successful defences against an unwelcome approach. We look forward to building on recent successes.

Investment Management and Alternative Assets

We are very pleased to report the good performance of our fund management activity, with gains across the board. Moreover, the product portfolio continued to expand with the launch of three new products during the year, Puma Enhanced Absolute Return Fund ("PEARF"), the two Puma VCTs and Puma Theta. At the same time we saw the maturing of Puma Property, a fund which has delivered spectacular medium term returns, and the returning of a substantial proportion of the equity to the investors as over half the portfolio was sold.

The table below summarises the performance of the various funds we run, both absolute and relative return, for the year 2005 where applicable and since inception. In the case of Puma Property and Dawnay Shore Hotels, this is shown to the date of the latest external property valuation. As this was prior to the end of 2005 it is not yet possible to show a figure for the full year.

**Returns from Absolute Return and Model Portfolio Products
Performance in 2005 and since Inception**

	Inception Date	Asset type	Performance in 2005 %	IRR to Date % p.a.
Absolute Return Products				
Puma Absolute Return Fund	May 2003	Fund of hedge funds	10.4	9.5
Puma Enhanced Absolute Return Fund	March 2005	Geared fund of hedge funds	10.1	12.2
Puma VCTs ⁽¹⁾	Apr/May 2005	VCT	7.1	10.0
Puma II	Dec 1999	Growth capital	10.8	6.4
Puma Theta	Oct 2005	Statistical arbitrage	0.7	2.9
Puma Property ⁽²⁾	July 2002	UK commercial property	Not yet announced	35.6
Dawnay Shore Hotels ⁽²⁾	July 2004	Hotels	Not yet announced	34.1

⁽¹⁾ Weighted composite of two VCTs ⁽²⁾ Based on most recent valuation of properties

	Inception Date	Asset type	Performance in 2005 %	IRR to Date % p.a.
Model Portfolios				
Growth Portfolio	Feb 2002	Equities, bonds and unit trusts	28.2	4.8
Balanced Portfolio	Feb 2002	Equities, bonds and unit trusts	21.9	7.4
Multi-manager Portfolio	Growth July 2003	Unit trusts	24.8	23.4
Multi-manager Portfolio	Income July 2004	Unit trusts	18.1	19.4

In the latter part of 2005 we reorganised our fund management activities, bringing them all within Shore Capital Limited under a regulatory authorisation granted to this company. Staff previously providing these services now have their authorisation with Shore Capital Limited. We are also pleased to report that Stuart MacDonald has joined us as Director of Alternative Investments to build on the success of our alternative asset management business, focused particularly on hedge funds. He was previously Director of Hedge Funds at Henderson Global Investors, where he was instrumental in the development and growth of the company's c.\$2billion single manager hedge fund business.

Funds Under Management

Funds under management as at 31 December 2005 were £675m (\$1.23 billion), a 10.3 per cent increase on the £612m (\$1.17 billion) at 31 December 2004. These figures are after accounting for the now accelerating net return of cash to investors in Puma Property. Since the year end, funds under management have increased to £860m (\$1.5 billion) largely as a result of the successful launch of Puma Brandenburg, described below.

Puma Brandenburg

We are delighted to have raised £185m in new equity for Puma Brandenburg Limited ("Puma Brandenburg"), a new property fund to be managed by a subsidiary of the Group, Puma Property Advisors Limited ("PPAL"). Puma Brandenburg is a new investment company established to invest in German real estate and is joining AIM through a placing by Shore Capital Stockbrokers Limited with institutional and other investors.

The company intends to invest in a diversified portfolio of real estate in Germany. The portfolio will typically comprise apartment blocks in good urban locations, often containing an element of retail and/or commercial space. In addition to the equity being raised, the company will also finance its purchases using medium term debt finance of approximately 80 per cent. Its directors expect that the property portfolio will have a gross yield greater than the company's cost of medium term debt. As a result, they expect that this capital structure will produce positive cash on cash running returns as well as prospects of capital growth.

Puma Brandenburg is structured as a Guernsey registered closed-ended investment company. Shore Capital Trading Limited is investing £5 million through the placing. PPAL will receive an aggregate annual management fee of 0.4 per cent of the gross value of the properties and property-related assets, of which 75 per cent. will be retained by Shore Capital. There will also be a carried interest for the principals including Shore Capital in the success of the company of 20 per cent of returns, subject to an 8 per cent. hurdle rate of return.

Puma II

Puma II, our Growth Capital Fund, showed strong performance, with a growth of 10.2% in net assets per share over the year. As at 31 December 2005, its net assets per share had grown by 45.1 per cent since inception. Given its short remaining life (it will be wound up in December 2006), we have been making shorter term investments with an appropriate exit horizon. We have also successfully realised some of the major investments and seen others bearing fruit and becoming more liquid. On this basis, we believe that we should be well-placed to raise a new growth capital opportunities fund.

Puma Property Fund

We established Puma Property in 2002 to invest in UK commercial investment property on a leveraged basis at a time when there was a significant positive yield spread between secondary commercial property and medium term debt finance. Moreover, the yields on offer looked attractive given that it was possible to buy such a property portfolio with good reversionary prospects.

Over the nearly 4 years since the launch of the fund, the commercial property market has seen a major change in sentiment, with rising capital values and significantly lower yields. This has generated very strong returns for the fund as its leveraged capital structure accentuated the return on equity.

Although the fund was originally established with a 7-9 year life, it has therefore become attractive to realise the portfolio earlier and lock in these gains. As a result, we have been selling properties, achieving prices representing a substantial premium to the last independent valuation as at April 2005. In total we have (as of today's date) sold properties with a gross value of £96.25m, realising 139 per cent of the initial funds invested after redeeming associated debt (this figure excludes the income which investors have also received). The fund currently retains property with a gross value as at April 2005 of £44.15m, representing on a net basis approximately 70 per cent of the initial funds invested. We have benefited from the fund's performance uplift both through the capital we committed at the fund's inception (£2.85m) and from our entitlement to carried interest.

We have of course looked for markets where we could pursue a similar strategy. We launched Dawnay Shore Hotels in 2004 and Puma Brandenburg, discussed above, in 2006.

Dawnay Shore Hotels

Our second property-related venture, Dawnay Shore Hotels plc ("DSH"), has been making good progress. It acquired its first portfolio of 13 four-star British regional hotels in July 2004. Following three subsequent acquisitions of portfolios or individual properties, most recently of three Furlong Hotels which included the Lygon Arms, it now holds 20 four- and five-star hotels under the Paramount brand. The vehicle has been funded using private equity and mezzanine finance raised by Shore Capital and senior debt provided by banks.

Recent transactions in the hotel sector and in other cash generative property-backed businesses support our belief that EBITDA multiples of assets of this quality have risen substantially. Given the leveraged nature of DSH's funding, this implies a significant uplift in the value of the portfolio. Moreover, DSH is actively exploiting the potential for gains in value through developing the portfolio by adding extra rooms or more wholesale redevelopment at Walton Hall and (subject to planning) at the Imperial Hotel, Torquay.

We have used the last independent professional valuation (30 June 2005) to calculate the internal rate of return and account for our interest in the hotel portfolio. On this basis, the success of DSH has also begun to contribute to our performance, both through our own holding and through our carried interest.

Puma Absolute Return Fund ("PARF")

PARF had an excellent performance in the second half of 2005. As a result, its performance for the year as a whole was a gain of 10.4 per cent, as in previous years achieved with relatively low volatility. This put it in the top quartile of funds of hedge funds.

We also launched PEARF, a leveraged fund of hedge funds, on 1 March 2005. Given the strong performance of PARF, as expected the leverage significantly enhanced returns. The annualised return for PEARF was 12.2 per cent. Both PARF and PEARF have started 2006 very strongly, up by 4.0 per cent and 6.7 per cent respectively to the end of February.

Private Client Investment Management

Our track record for private client investment management remains strong. Here we measure the performance of our model portfolios relative to relevant benchmarks rather than solely in absolute terms. However, we are pleased to note excellent absolute as well as relative performance in 2005, as shown in the table above.

Turning to relative performance, our balanced portfolio has outperformed its benchmark by 5.3 per cent from launch to 31 December 2005. Over the same almost 4 years to 31 December 2005 the growth portfolio also outperformed its benchmark by 10.4 per cent.

We have also developed additional "long only" products, based on picking "best of breed" long only funds. The growth oriented fund of funds has achieved 67.8 per cent growth since launch at 30 June 2003 to 31 December 2005 and out-performed its benchmark by 5.5 per cent. The newer income-oriented fund of funds has achieved 29.8 per cent since launch at 30 June 2004 to 31 December 2005 and out-performed its benchmark by 5.6 per cent.

Puma Venture Capital Trusts

As discussed above, we launched the first two Puma VCTs in 2005. These were designed to take advantage of the higher income tax relief (and increased permitted subscription size) offered for 2004/5 and 2005/6 tax years. We conceived an innovative combination of growth capital, hedge funds and other alternative assets, offering tax free returns as well as an initial 40 per cent tax relief. From launch at end January to closing at the end of May we raised £20.4 million, making it one of the most successful launches of that fund-raising round.

We were keen to design a distinctive product which was tailored to the requirements of our clientele and will hopefully deliver good returns. The structure includes a clearly defined 5 year life, the absolute return investment strategy discussed above and a low initial cost for investors of 2 per cent, compared to the 5-5½ per cent which is typical of the industry. We charge an annual fee of 2 per cent for managing the VCT and will also receive a carried interest once cash distributions to investors exceed 100p per share.

The initial performance of these VCTs has been above the target we set out to achieve (although it is early days), with a composite annualised internal rate of return for the first 9 months of approximately 10.0 per cent. We have launched further VCTs for 2005/6 using a similar approach and are currently actively fund raising.

Puma Theta

We launched our first single strategy hedge fund in October 2005 together with an established hedge fund manager who has been successfully running the strategy for Israeli clients. The strategy uses statistical arbitrage to exploit pricing and volatility anomalies in options over major stock indices such as the S & P 500 and NASDAQ 100. Our partner's flagship fund in Israel has achieved 12.0 per cent p.a. returns over the 30 months since its launch with this strategy, delivered with exceptionally low volatility of return, and has outperformed the CSFB Tremont and VAN Global Hedge Fund Indices.

This new venture broadens the scope of our alternative asset class funds under the Puma brand and complements our fund of hedge funds product. As well as structuring and marketing the fund, we are overseeing cash management and control of margin accounts. We contribute to overall investment strategy and sit on the investment committee.

This provides an excellent model for us to grow our business by launching further funds in partnership with other hedge fund managers of high ability and with a strong track record. The venture builds further on our proven track record of backing entrepreneurs and innovators in the investment industry, using our infrastructure to set them up as fund managers. We participate in the economics of managing the fund in exchange for branding, structuring, marketing and support.

Puma Theta has only been investing since October 2005, so it is early to judge performance. Stock market conditions in this period have not been ideal for the strategy and the fund was marginally positive in its first quarter. Performance has since improved and it has gained 1.7 per cent over its first 5 months.

Principal Finance - Orchid Developments

In July 2005 we concluded the successful flotation of Orchid Developments, a Bulgarian property developer. We first became involved in Orchid at a much earlier stage of its development, at which point we could see the potential. We provided seed finance for the company, raised equity and mezzanine funding for it from clients and assisted it in its development. One major input was to assist in securing debt funding from the European Bank for Reconstruction and Development. The company has now achieved the milestone of a public listing and since then the shares have performed strongly.

Employees

I should like to take this opportunity to thank our employees for their commitment and hard work during the year. Without all their efforts it would not have been possible to achieve the progress we have made over the last few years. In particular, I should like to congratulate Simon Fine and his ECM team and our various fund management teams on their achievements.

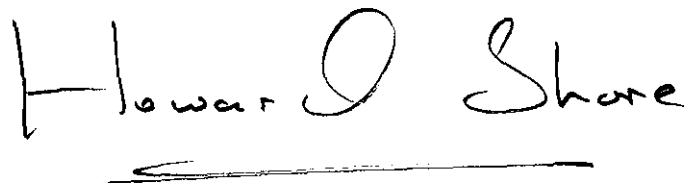
Current Trading and Prospects

Both divisions of the business are performing well at present, giving us a good platform for a further year of strong growth. ECM has already completed two major transactions in 2006 and is seeing strong activity levels in market-making and secondary stockbroking. This reflects the successful integration of the expanded sales, research and corporate finance teams over the last three years.

The launch of Puma Brandenburg demonstrates the scalability of our principal finance and alternatives business. Ventures such as this, Hotels and the launch of single strategy hedge funds such as Puma Theta can have a very substantial impact on the business going forward.

The new financial year has started strongly and we remain confident about our prospects for 2006.

Howard P Shore
Chairman
15 March 2006



A handwritten signature in black ink, reading "Howard P Shore". The signature is written in a cursive, flowing style. Below the signature is a horizontal line, likely a separator or part of the signature.

Corporate Governance

General

Throughout the year ended 31 December 2005 the Group has complied with the Code provisions set out in Section 1 of the July 2003 FRC Code on Corporate Governance ("the Code") issued by the UK Listing Authority other than the matters noted below.

Board of Directors

The Board currently comprises four executive and two non-executive directors. It carries ultimate responsibility for the conduct of the business of the Group. The Board maintains full control and direction over appropriate strategic and financial issues through regular meetings and reports to ensure that the Board is supplied with all the information it needs. The two non-executive directors are independent.

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

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

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 does 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 or a senior independent director. This is because with only two non-executive directors and a Board of only 6 in total, nominations can be readily handled without a committee by the Board as a whole, whilst both non-executive directors are accessible to shareholders in the event of issues arising.

In accordance with the Principles of the Code, one third of the directors retire and offer themselves for re-election each year, and accordingly J B Douglas and M L van Messel retire and offer themselves for re-election. A brief biography of each director is set out on page 52. J B Douglas has attended all meetings of the Board held during the year and the Group benefits from his experience and knowledge both as a director of other companies listed in the UK and of the sectors in which those companies operate. M L van Messel has attended all meetings of the Board held during the year and continues to apply his technical and professional skills to both the operations of the group and the creation and operation of funds launched.

The Board met four times during 2005 and was supplied with Board papers in advance of each meeting covering the Group's principal business activities. The number of meetings of the Board and the Audit and Remuneration Committees and individual attendance by members is set out below:

	Board	Audit	Remuneration
Total number of meetings in 2005	4	2	2
Number of meetings attended in 2005			
H P Shore	4	-	-
G B Shore	4	2	-
M L van Messel	4	-	-
J S Paisner	4	-	-
J B Douglas	4	2	2
Dr Z Marom	4	2	2

Audit Committee

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

Going concern

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

Internal control

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

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

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

Relations with shareholders

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

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

Directors' remuneration report

Introduction

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 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 Dr Z Marom, and is chaired by Mr J B Douglas. Mr G B Shore retired from the committee on 31st May 2005. The Remuneration Committee has given full consideration to Section B of the Best Practice Provisions annexed to the Listing Rules of the UK Listing Authority. The principal function of the Remuneration Committee is to determine the Group's policy on executive remuneration. It makes its decisions in consultation with the Chairman and Chief Executive. No director plays a part in any decision about their own remuneration. The Committee meets periodically when it has proposals to consider and in any event no less than once each year.

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

Basic salary

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

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

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

Annual bonus payments

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

Pension arrangements

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

Share options

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

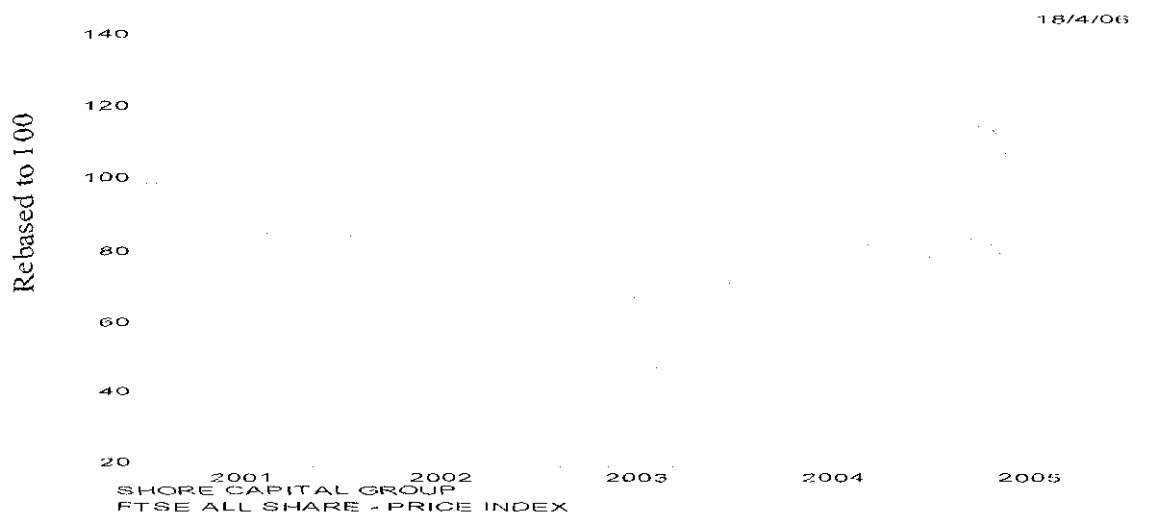
The exercise price of the options granted under the above scheme is no less than the market value of the company's shares at the time when the options are granted. Options granted under the Share Option Plan are subject to continuing service and the options of the directors do not vest until the end of three years from the date of grant. Thereafter the options may be exercised for the rest of its 10 year life without further test.

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

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

Performance graph

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



Non-executive directors

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

Directors' contracts

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

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

Audited information:**Directors' emoluments**

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

Director's share options

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

Directors' pension entitlements

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

Approval

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



M L van Messel

25 April 2006

Directors' Report

The directors present their annual report and the audited financial statements of the Group for the financial year ended 31 December 2005.

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 2 to 9.

International Financial Reporting Standards (IFRS)

The financial statements have been prepared in accordance with IFRS for the first time. The principal accounting policies adopted under IFRS are set out in note 1. The impact of the transition from UK GAAP to IFRS is set out in note 23.

Results and dividends

The results for the financial year are set out on page 21. An interim dividend of 0.375p per share (2004: 0.285p) was paid during the year; the directors propose a final dividend of 0.5p per share (2004: 0.38p) making a total for the year of 0.875p per share (2004: 0.665p).

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.

Risk management

The Group's policies for managing the risks arising from its activities, including the use of derivative instruments, are set out in note 22.

Directors

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

		2p ordinary shares	
		31 December 2005	31 December 2004
H P Shore		100,147,359	115,147,359
G B Shore		21,652,820	21,652,820
M L van Messel		2,664,042	2,664,042
J S Paisner	(appointed 11 May 2005)	1,000,000	1,000,000
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.

Charitable donations

The Group made charitable donations of £76,000 (2004: £19,000) during the year, including £12,000 in respect of the Tsunami appeal to match donations made by employees.

Directors' Report (continued)

Environmental policy.

The Group aims wherever appropriate to be environmentally conscious. During the year, it arranged for a large volume of waste paper to be recycled (equivalent to at least 34 trees) and for redundant computer equipment to be collected for recycling and environmentally sound disposal.

Creditor payment policy

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

- a) for market creditors arising in respect of trades in securities, payment is made on the later of intended settlement date for the transaction or receipt of stock; and
- b) for other suppliers, payment is made within the later of 45 days after receipt of the invoice or 45 days after receipt of the goods or services concerned. Creditor days of the Group at the year end were 34 days (2004: 32 days).

Major shareholdings

Other than Directors, the following shareholders had notified the Company of holdings of 3% or more of the shares of the Company as at 25 April 2006:

	Ordinary Shares	%
The J P Morgan Fleming Mercantile Investment Trust Plc	22,570,876	8.32
Jupiter Asset Management	20,508,888	7.55

Auditors

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

By order of the Board



J S Paisner
Secretary

Bond Street House
14 Clifford Street
London W1S 4JU

25 April 2006

Statement Of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements. The directors have chosen to prepare the accounts for the company and the group in accordance with International Financial Reporting Standards. 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 as at the end of the financial year and of the profit or loss of the company 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, 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 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 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 group and individual company financial statements (the "financial statements") of Shore Capital Group plc for the year ended 31 December 2005 which comprise the consolidated income statement, the consolidated and individual company balance sheets, the consolidated statements of change in shareholders' equity, the consolidated cash flow statements and the related notes 1 to 23. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant financial reporting framework and whether the 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 and Article 4 of the IAS Regulation. We report to you if, in our opinion, the directors' report is not consistent with the financial statements. We also report to you 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 other transactions is not disclosed.

We also report to you if, in our opinion, the company has not complied with any of the four directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2003 FRC 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 including the unaudited part of the directors' remuneration report and we consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

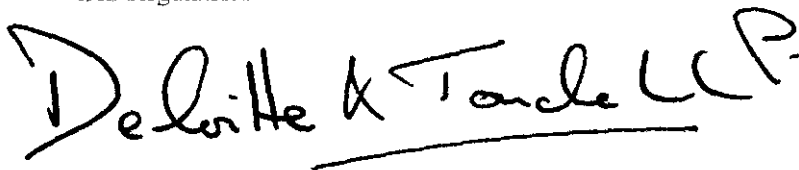
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report 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 financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report 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 financial statements and the part of the directors' remuneration report described as having been audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, of the state of the group's affairs as at 31 December 2005 and of its profit for the year then ended;
- the individual company financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union as applied in accordance with the requirements of the Companies Act 1985, of the state of the individual company's affairs as at 31 December 2005; and
- the 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 and Article 4 of the IAS Regulation.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style. The "D" is large and loops around the "e" in "Deloitte". The "&" is written as a simple ampersand. "Touche" is written in a similar cursive style, and "LLP" is written in a slightly more upright, but still cursive, style. A horizontal line is drawn under the signature.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

25 April 2006

Consolidated Income Statement

For the year ended 31 December 2005

	Notes	2005 £'000	2004 £'000
Revenue	1, 2	27,644	17,023
Administrative expenditure		(15,074)	(11,080)
Operating profit	3	12,570	5,943
Investment income	1	-	54
Interest income	4	404	542
Finance costs	5	(324)	(31)
		80	565
Profit before taxation	2	12,650	6,508
Taxation	7	(3,387)	(1,954)
Profit for the year		9,263	4,554
Attributable to:			
Equity holders of the parent		8,537	4,274
Minority interests		726	280
		9,263	4,554
Earnings per share			
Basic	10	3.07p	1.61p
Diluted	10	3.07p	1.54p

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


Consolidated Balance Sheet


As at 31 December 2005

	Notes	2005 £'000	2004 £'000
Assets			
Non-current assets			
Goodwill	12	381	381
Property, plant & equipment	13	594	570
Available-for-sale investments	6.c, 14	1,256	1,369
		<u>2,231</u>	<u>2,320</u>
Current assets			
Bull positions and other holdings	15	31,390	29,018
Trade and other receivables	16	33,871	19,404
Cash and cash equivalents	6.c, 17	7,734	7,132
		<u>72,995</u>	<u>55,554</u>
Total assets		<u>75,226</u>	<u>57,874</u>
Liabilities			
Current liabilities			
Bear positions		(1,840)	(1,241)
Trade and other payables	18	(21,383)	(13,712)
Tax liabilities		(1,918)	(1,873)
Bank overdrafts		(5,092)	(4,932)
		<u>(30,233)</u>	<u>(21,758)</u>
Non-current liabilities			
Provision for liabilities and charges	19	(1,017)	(841)
Total liabilities		<u>(31,250)</u>	<u>(22,599)</u>
Net Current Assets		<u>42,762</u>	<u>33,796</u>
Net Assets		<u>43,976</u>	<u>35,275</u>
Equity			
Capital and Reserves			
Called up share capital	21	5,408	5,270
Share premium account		1,030	82
Capital redemption reserve		971	971
Other reserve		422	163
Retained earnings		34,269	27,746
Equity attributable to equity holders of the parent		<u>42,100</u>	<u>34,232</u>
Minority interest		1,876	1,043
Total equity	24	<u>43,976</u>	<u>35,275</u>

Approved by the Board of Directors on 25 April 2006.

Signed on behalf of the Board of Directors


 H P Shore
 Director


 M L van Messel
 Director

Company Balance Sheet

As at 31 December 2005

	Notes	2005 £'000	2004 £'000
Assets			
Non-current assets			
Property, plant & equipment	13	108	120
Available-for-sale investments	14	33,685	32,485
		<u>33,793</u>	<u>32,605</u>
Current assets			
Trade and other receivables	16	220	119
Amounts owed by subsidiary undertakings		11,184	7,386
Loan to subsidiary		1,800	2,575
Cash and cash equivalents		71	392
		<u>13,275</u>	<u>10,472</u>
Total assets		<u>47,068</u>	<u>43,077</u>
Liabilities			
Current liabilities			
Trade and other payables	18	(2,443)	(1,152)
Amounts owed to subsidiary undertakings		(12,207)	(8,152)
Tax liabilities		-	(118)
Bank overdrafts		(63)	(33)
		<u>(14,713)</u>	<u>(9,455)</u>
Non-current liabilities			
Provision for liabilities and charges	19	(1,017)	(841)
Total liabilities		<u>(15,730)</u>	<u>(10,296)</u>
Net Current (Liabilities)/Assets		<u>(1,438)</u>	<u>1,017</u>
Net Assets		<u>31,338</u>	<u>32,781</u>
Equity			
Capital and Reserves			
Called up share capital	21	5,408	5,270
Share premium account		1,030	82
Capital redemption reserve		971	971
Other reserve		202	114
Retained earnings		23,727	26,344
Total equity		<u>31,338</u>	<u>32,781</u>

Approved by the Board of Directors on 25 April 2006.

Signed on behalf of the Board of Directors



H P Shore
Director



M L van Messel
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Called up, allotted and fully paid up share capital £'000	Share premium account £'000	Capital Redemption reserve £'000	Other reserve £'000	Retained earnings £'000	Minority Interest £'000	Total £'000
At 1 January 2004	5,255	-	971	109	24,747	463	31,545
Retained profit for the year	-	-	-	-	4,274	280	4,554
Credit in relation to IFRS2 charge for share based payments	-	-	-	54	-	-	54
Equity dividends paid (Note 9)	-	-	-	-	(1,275)	-	(1,275)
Shares issued in respect of options exercised	15	82	-	-	-	-	97
Issue of shares in a subsidiary to minority interests	-	-	-	-	-	300	300
At 31 December 2004	5,270	82	971	163	27,746	1,043	35,275
Retained profit for the year	-	-	-	-	8,537	726	9,263
Credit in relation to IFRS2 charge for share based payments	-	-	-	89	-	-	89
Revaluation of available-for-sale investments:							
- Adoption of IAS32/39 (Note 14)	-	-	-	159	-	-	159
- Revaluation in the year (Note 14)	-	-	-	84	-	-	84
- Related deferred tax charge	-	-	-	(73)	-	-	(73)
Equity dividends paid (Note 9)	-	-	-	-	(2,014)	-	(2,014)
Shares issued in respect of options exercised	138	948	-	-	-	-	1,086
Issue of shares in a subsidiary to minority interests	-	-	-	-	-	107	107
At 31 December 2005	5,408	1,030	971	422	34,269	1,876	43,976

Company Statement of Changes in Equity

For the year ended 31 December 2005

	Called up, allotted and fully paid up share capital £'000	Share premium account £'000	Capital Redemption reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2004	5,255	-	971	60	27,035	33,321
Retained profit for the year	-	-	-	-	584	584
Credit in relation to IFRS2 charge for share based payments	-	-	-	54	-	54
Equity dividends paid (Note 9)	-	-	-	-	(1,275)	(1,275)
Shares issued in respect of options exercised	15	82	-	-	-	97
At 31 December 2004	5,270	82	971	114	26,344	32,781
Retained loss for the year	-	-	-	-	(603)	(603)
Credit in relation to IFRS2 charge for share based payments	-	-	-	88	-	88
Equity dividends paid (Note 9)	-	-	-	-	(2,014)	(2,014)
Shares issued in respect of options exercised	138	948	-	-	-	1,086
At 31 December 2005	5,408	1,030	971	202	23,727	31,388

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	2005 £'000	2004 £'000
Cash flows from operating activities		
Operating profit	12,570	5,943
Adjustments for:		
Depreciation charges	188	176
Share-based payment	89	54
Loss on sale of fixed assets	1	-
Increase in provision for NIC on options	335	712
Increase in trade and other receivables	(14,464)	(6,455)
Increase in trade and other payables	7,671	6,039
Increase in bear positions	599	423
Increase in bull positions	(10,542)	(6,934)
Decrease/(increase) in tradeable loan instruments	8,461	(1,978)
Cash generated/(utilised) by operations	<u>4,908</u>	<u>(2,020)</u>
Interest paid	(324)	(31)
Corporation tax paid	(3,344)	(517)
Net cash generated/(utilised) by operating activities	<u>1,240</u>	<u>(2,568)</u>
Cash flows from investing activities		
Purchase of property, plant & equipment	(212)	(315)
Purchase of available-for-sale investments	(137)	(64)
Proceeds on disposal of available-for-sale investments	129	128
Interest received	402	539
Net cash generated from investing activities	<u>182</u>	<u>288</u>
Cash flows from financing activities		
Shares issued following exercise of options	1,086	97
Less related National Insurance paid	(159)	-
Shares issued in subsidiary to Minority Interests	107	300
Dividends paid	(2,014)	(1,275)
Net cash utilised by financing activities	<u>(980)</u>	<u>(878)</u>
Net increase/(decrease) in cash and cash equivalents	442	(3,158)
Cash and cash equivalents at the beginning of the year	2,200	5,358
Cash and cash equivalents at the end of the year	<u>2,642</u>	<u>2,200</u>

Company Cash Flow Statement

For the year ended 31 December 2005

	2005 £'000	2004 £'000
Cash flows from operating activities		
Operating (loss)/profit	(1,032)	26
Adjustments for:		
Depreciation charges	27	33
Share-based payment	88	54
Increase in provision for NIC on options	335	712
Increase in trade and other receivables	(2,932)	(772)
Increase/(decrease) in trade and other payables	5,346	(357)
Cash generated/(utilised) by operations	<u>1,832</u>	<u>(304)</u>
Interest paid	-	(3)
Corporation tax paid/(repaid)	(118)	208
Net cash generated/(utilised) by operating activities	<u>1,714</u>	<u>(99)</u>
Cash flows from investing activities		
Purchase of property, plant & equipment	(15)	(77)
Purchase of available-for-sale investments	(1,200)	-
Interest received	237	390
Dividends received	-	323
Net cash (utilised)/generated by investing activities	<u>(978)</u>	<u>636</u>
Cash flows from financing activities		
Shares issued following exercise of options	1,086	97
Less related National Insurance paid	(159)	-
Dividends paid	(2,014)	(1,275)
Net cash utilised by financing activities	<u>(1,087)</u>	<u>(1,178)</u>
Net increase/(decrease) in cash and cash equivalents	<u>(351)</u>	<u>(641)</u>
Cash and cash equivalents at the beginning of the year	<u>359</u>	<u>1,000</u>
Cash and cash equivalents at the end of the year	<u>8</u>	<u>359</u>

Notes To The Accounts

For the financial year ended 31 December 2005

1. Accounting Policies

Accounting convention

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the first time. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in note 24. The financial statements have also been prepared in accordance with IFRS adopted for use in the European Union (EU) and therefore comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments and in accordance with IFRS. The principal accounting policies adopted are set out below.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and all subsidiaries for the financial year ended 31 December 2005.

Revenue

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

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

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

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

Financial instruments

Current year

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

The Group has applied the requirements of IAS 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement. In accordance with the exemption under IFRS 1 First Time Adoption of International Financial Reporting Standards, IAS 32 and IAS 39 have been applied from 1 January 2005.

Financial Instruments which are designated at fair value through profit or loss at acquisition comprise bull and bear positions in securities and are valued at closing out prices at the close of business on the balance sheet date, namely bull positions at the bid price and bear positions at the offer price (adjusted for any discount based on the size and liquidity of the holding). Positions in unquoted securities are valued by the Directors at the most recent available representative arm's length price or valuation. Where no such price or valuation exists, they are valued at the lower of cost and net realisable value.

Notes To The Accounts (continued)

For the financial year ended 31 December 2005

1. Accounting Policies (continued)

Financial instruments (continued)

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

Prior year

Financial instruments that were held for trading comprised bull and bear positions. They were valued on the same basis as in the current year and there has been no impact as a result of IFRS.

Investments that were held as fixed asset investments were valued on the same basis used in the current year for available-for-sale investments. However, such revaluation was taken to the profit and loss account.

Investment in subsidiaries

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

Intangible assets

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

Impairment

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

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

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

Notes To The Accounts (continued)

For the financial year ended 31 December 2005

1. Accounting Policies (continued)

Foreign exchange

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

The Group enters into forward contracts for the sale of foreign currencies in order to hedge its exposure to fluctuations in currency rates in respect of bull positions and other holdings. These forward contracts are retranslated at the rate prevailing at the balance sheet date and any change in value is taken to the income statement.

Property, plant & equipment

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

Leasehold premises	-	over the unexpired term of the lease
Fixtures and equipment	-	25% per annum
Motor vehicles	-	16.7% per annum

Property and operating leases

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

Pension costs

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

Taxation

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

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

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

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

Notes To The Accounts (continued)
For the financial year ended 31 December 2005

1. Accounting Policies (continued)

Taxation (continued)

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.

Cash and cash equivalents

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

Share-based payments

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

The Group engages in equity settled share-based payment transactions in respect of services received from certain employees and directors. The fair value of the services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost of the employee services received in respect of the share options granted is recognised in the income statement over the period that the services are received, which is the vesting period. The fair value of the options granted is determined using the Black-Scholes Option Pricing Model, which take into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the Group's share price over the life of the option and other relevant factors.

Share Option Plan

Any difference between the exercise price of share options granted under the Share Option Plan and the market value of the shares on the date of granting the options are taken to the profit and loss account. Employer's National Insurance ("NI") is accrued at the current rate of NI on differences between the market value at the balance sheet date of the shares that would be acquired when the options are exercised and the exercise price of those options.

Notes To The Accounts (continued)
For the financial year ended 31 December 2005

2. Analysis of Revenue and Profit Before Tax

	2005 £'000	2004 £'000
Revenue		
Investment banking activities	27,644	17,023
	<u>27,644</u>	<u>17,023</u>
 Profit before taxation		
Investment banking activities	12,650	6,508
	<u>12,650</u>	<u>6,508</u>

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

3. Operating Profit

	2005 £'000	2004 £'000
Operating profit is stated after charging the following:		
Auditors' remuneration - audit fees	65	59
- non-audit fees	43	15
Depreciation	188	176
Property lease rentals	304	309
Loss on disposal of fixed assets	<u>1</u>	<u>-</u>

Audit fees for the parent company were £24,000 (2004: £21,000).

Notes To The Accounts (continued)
For the financial year ended 31 December 2005

4. Interest Income

	2005 £'000	2004 £'000
Bank interest	287	421
Other interest receivable	117	121
	<u>404</u>	<u>542</u>

5. Finance Costs

	2005 £'000	2004 £'000
Bank loans and overdrafts repayable within five years	323	27
Other interest payable	1	4
	<u>324</u>	<u>31</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:

	2005 No.	2004 No.
Investment banking activities:		
Securities	43	37
Corporate Advisory	11	9
Asset Management	15	11
	<u>69</u>	<u>57</u>

b) The costs incurred in respect of these employees comprise

	2005 £'000	2004 £'000
Salaries and commission	8,611	6,064
Social security costs	1,065	599
Pension costs	78	56
	<u>9,754</u>	<u>6,719</u>

Notes To The Accounts (continued)

For the financial year ended 31 December 2005

6. Employees and Directors (continued)

c) Employee Benefit Trust

Total Assets includes Cash at Bank and Available for sale Investments held by an Employee Benefit Trust whose beneficiaries are the employees of the Group and their immediate families. As at 31 December 2005, the Trust held cash of £448,000 (2004: £532,000) and available for sale investments of £215,000 (2004: £64,000).

d) Employee Share Option Plan

The Group maintains a Share Option Plan under which present and future employees of the Group may be granted options to subscribe for up to 10% of the Group's issued share capital from time to time (on a fully-diluted basis). The plan is used to attract and retain high-calibre employees to continue to develop and expand the business of the Group. Such options are granted by the Board and may be exercised up to 10 years from the date of grant. As at 31 December 2005, there were 25,826,966 (2004: 32,066,823) options in issue under the plan representing 8.72% (2004: 10.85%) of the Group's issued share capital on a fully diluted basis.

e) Emoluments of the Directors

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

* appointed 11 May 2005

2004	Gross salary £'000	Bonus, commission and other income £'000	Fees £'000	Pension Contributions £'000	Benefits £'000	Total £'000
H P Shore	175	545	-	-	23	743
G B Shore	136	245	-	10	2	393
M L van Messel	85	52	-	8	2	147
Dr Z Marom	-	25	5	-	-	30
J B Douglas	-	23	5	-	-	28
	396	890	10	18	27	1,341

Notes To The Accounts (continued)

For the financial year ended 31 December 2005

6. Employees and Directors (continued)

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

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

There have been no movements during the year in the number of options over unissued ordinary shares held by the Directors. On 16 March 2006, M L van Messel exercised options over 500,000 unissued ordinary shares and disposed of the shares issued.

The closing price of the shares at 31 December 2005 was 48.0p (2004: 39.5p) and the range during the year was 39.5p to 48.0p.

g) Related party transactions

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

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

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

	2005 £'000	2004 £'000
Recharged to:		
Shore Capital Markets Limited	648	654
Shore Capital Limited	516	600
Shore Capital Trading Limited	600	600
	<u>1,764</u>	<u>1,854</u>

h) Compensation of key management personnel

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

	2005 £'000	2004 £'000
Short-term benefits	2,234	1,501
	<u>2,234</u>	<u>1,501</u>

Notes To The Accounts (continued)

For the financial year ended 31 December 2005

7. Tax on Profit on Ordinary Activities

	2005 £'000	2004 £'000
The tax charge comprises:		
Provision for United Kingdom corporation tax charge at 30% (2004: 30%)	3,410	1,889
Over provision in prior years	(23)	(17)
Movement in deferred tax due to timing differences	-	82
	<u>3,387</u>	<u>1,954</u>

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

	2005 £'000	2004 £'000
Profit on ordinary activities before tax	<u>12,650</u>	<u>6,508</u>
Tax thereon at 30%	3,795	1,952
Effects of:		
Expenses not deductible for tax purposes	70	32
Income not chargeable to tax	(82)	(19)
Depreciation in excess of capital allowances	12	24
Permanent tax differences	(494)	(46)
Other timing differences	-	44
Additional provision	144	-
Capital losses utilised	(35)	(16)
Overprovision in prior years	(23)	(17)
	<u>3,387</u>	<u>1,954</u>

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 loss after tax for the financial year amounted to £603,000 (2004: profit of £584,000).

9. Rates of Dividends Paid and Proposed

	2005 £'000	2004 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2004 of 0.38p per share (2003: 0.20p)	1,003	525
Interim dividend for the year ended 31 December 2005 of 0.375p per share (2004: 0.285p)	<u>1,011</u>	<u>750</u>
	<u>2,014</u>	<u>1,275</u>
Proposed final dividend for the year ended 31 December 2005 of 0.50p per share (2004: 0.38p)	<u>1,352</u>	<u>1,003</u>

Notes To The Accounts (continued)

For the financial year ended 31 December 2005

10. Earnings per Share

The earnings and number of shares in issue or to be issued used in calculating the earnings per share and diluted earnings per share in accordance with IAS33 were as follows:

	2005		2004	
	Basic	Diluted	Basic	Diluted
Earnings (£)	8,537,000	8,537,000	4,274,000	4,274,000
Number of shares	277,794,808	277,794,808	265,457,081	277,211,067
Earnings per share	3.07p	3.07p	1.61p	1.54p

Calculation of number of shares	2005		2004	
	Basic	Diluted	Basic	Diluted
At 1 January	263,484,752	263,484,752	262,746,038	262,746,038
Weighted average number of potential shares	14,310,056	14,310,056	2,711,043	2,711,043
Dilutive effect of share option schemes	-	-	-	11,753,986
At 31 December	277,794,808	277,794,808	265,457,081	277,211,067

11. Lease Commitments

Operating leases	2005	2004
	£'000	£'000

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

Leases expiring between two and five years	211	211
	211	211

Notes To The Accounts (continued)

For the financial year ended 31 December 2005

12. Goodwill

	Goodwill arising on the acquisition of
Cost	Minority Interest in subsidiary
	£'000
At 1 January 2005	477
Additions	-
At 31 December 2005	477
Amortisation	
At 1 January 2005	96
Charge for the year	-
At 31 December 2005	96
Net Book Value	
At 31 December 2005	381
At 31 December 2004	381

Prior to the transition to IFRS, goodwill arising on consolidation was amortised over the lower of 20 years and the estimated useful life of the assets. Under IFRS, such goodwill is subject to an annual impairment review as detailed in note 23(c).

13. Property, Plant & Equipment - Group

Cost	Leasehold premises £'000	Fixtures and equipment £'000	Motor vehicles £'000	Total £'000
At 1 January 2005	289	848	138	1,275
Additions	31	181	-	212
Disposals	-	(119)	-	(119)
At 31 December 2005	320	910	138	1,368
Depreciation				
At 1 January 2005	147	532	26	705
Charge for the year	30	134	24	188
Disposals	-	(119)	-	(119)
At 31 December 2005	177	547	50	774
Net Book Value				
At 31 December 2005	143	363	88	594
At 31 December 2004	142	316	112	570

Notes To The Accounts (continued)

For the financial year ended 31 December 2005

13. Property, Plant & Equipment (continued) – Company

	Fixtures and equipment £'000	Motor vehicles £'000	Total £'000
Cost			
At 1 January 2005	103	138	241
Additions	15	-	15
At 31 December 2005	118	138	256
Depreciation			
At 1 January 2005	95	26	121
Charge for the year	4	23	27
At 31 December 2005	99	49	148
Net Book Value			
At 31 December 2005	19	89	108
At 31 December 2004	8	112	120

14. Available-for-Sale Investments

Available for Sale Investments held as Non Current Assets - Group

	Listed investments £'000	Unlisted investments £'000	Total £'000
Cost			
At 1 January 2005	350	1,048	1,398
Additions	-	137	137
Disposals	-	(217)	(217)
Reclassified to current assets	(350)	-	(350)
At 31 December 2005	-	968	968
Revaluation / (impairment)			
At 1 January 2005	(59)	30	(29)
Revaluation on adoption of IAS32/39	-	159	159
Revaluation in the year	(15)	99	84
Reclassified to current assets ¹	74	-	74
At 31 December 2005	-	288	288
Valuation			
At 31 December 2005	-	1,256	1,256
At 31 December 2004	291	1,078	1,369

¹ Investments classified as non-current assets in the comparative period but designated under IAS39 as Held for Trading in the current year have been reclassified to current assets and included within Bull positions and Other Holdings.

Notes To The Accounts (continued)

For the financial year ended 31 December 2005

14. Available-for-Sale Investments (continued)

Available for Sale Investments held as Non Current Assets – Company

	Shares in subsidiary undertakings £'000
Cost and valuation	
At 1 January 2005	32,485
Additions	1,200
At 31 December 2005	33,685

Additional information on principal subsidiaries.

Subsidiary	Country of registration and operation	Activity	Portion of ordinary shares and voting rights held
Trading Companies			
Shore Capital Markets Limited ²	England and Wales	Intermediate Holding Co.	79%
Shore Capital Stockbrokers Limited ³	England and Wales	Broker/dealer	79%
Shore Capital and Corporate Limited ³	England and Wales	Corporate advisers	79%
Shore Capital Finance Limited	England and Wales	Credit provider	100%
Shore Capital Limited	England and Wales	Fund Management company	100%
Shore Capital Investments Limited	England and Wales	Holds investments	100%
Shore Capital Trading Limited	England and Wales	Trader of securities	100%
JellyWorks Limited	England and Wales	Dormant	100%
Nominee Company			
Puma Nominees Limited	England and Wales	Nominee company	100%

² Shore Capital Markets Limited is the intermediate holding company of, and holds 100% of the ordinary shares and voting rights in, each of Shore Capital Stockbrokers Limited and Shore Capital and Corporate Limited. The Company currently has a direct holding of 79% in Shore Capital Markets Limited. The balance of the shares in Shore Capital Markets Limited were bought by senior executives of that company and its subsidiaries.

³ The Group's interest in each of Shore Capital Stockbrokers Limited and Shore Capital and Corporate Limited is held indirectly through Shore Capital Markets Limited (see note ² above).

Notes To The Accounts (continued)
For the financial year ended 31 December 2005

15. Bull positions and other holdings

	Group 2005 £'000	Company 2005 £'000	Group 2004 £'000	Company 2004 £'000
Listed holdings at market value				
Equities	10,735	-	3,693	-
Debt instruments	-	-	8,461	-
Unlisted holdings:				
Invested in own funds and products	18,074	-	13,923	-
Other (including hedge funds)	2,581	-	2,941	-
	31,390	-	29,018	-

16. Trade and Other Receivables

	Group 2005 £'000	Company 2005 £'000	Group 2004 £'000	Company 2004 £'000
Trade debtors	30,451	-	17,228	-
Other debtors	2,002	7	1,016	47
UK corporation tax	-	192	-	-
Prepayments and accrued income	1,418	21	1,160	72
	33,871	220	19,404	119

17. Cash and Cash Equivalents

Group

Cash at bank and in hand of £7,734,000 (2004: £7,132,000) includes £448,000 (2004: £532,000) held in the Shore Capital Group Employee Benefit Trust.

Notes To The Accounts (continued)

For the financial year ended 31 December 2005

18. Trade and Other Payables

	Group 2005 £'000	Company 2005 £'000	Group 2004 £'000	Company 2004 £'000
Trade creditors	15,671	-	10,718	-
Other creditors	461	65	25	-
Other taxation and social security	616	343	229	74
Accruals and deferred income	4,635	2,035	2,740	1,078
	<u>21,383</u>	<u>2,443</u>	<u>13,712</u>	<u>1,152</u>

19. Provisions for Liabilities and Charges

Group and Company:

	2005 £'000	2004 £'000
Provision for National Insurance contributions on share options		
At 1 January	841	129
Add: charge for the year	335	712
Less: payments made in the year	(159)	-
At 31 December	<u>1,017</u>	<u>841</u>

20. Capital Commitments

As at 31 December 2005 the Group had no capital commitments (2004: Nil).

21. Called Up Share Capital

	2005 £'000	2004 £'000
Authorised:		
625,000,000 ordinary shares of 2p each	<u>12,500</u>	<u>12,500</u>

	2005 Number of shares	2004 Number of shares	2005 £'000	2004 £'000
Allotted, called up and fully paid:				
At 1 January	263,484,752	262,746,038	5,270	5,255
Issued in the year	6,904,625	738,714	138	15
At 31 December	<u>270,389,377</u>	<u>263,484,752</u>	<u>5,408</u>	<u>5,270</u>

During the year to 31 December 2005, 6,904,625 (2004: 738,714) ordinary shares of 2p each were issued as the result of the exercise by employees of share options granted in prior years under the terms of the Share Option Plan.

Notes To The Accounts (continued)**For the financial year ended 31 December 2005****22. Financial Instruments**

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

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

	2005	2004
	£'000	£'000
Equities	11,972	6,881
Debt instruments	396	53
Alternative assets	830	719
	13,198	7,653

a) Market Risk

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

Through a combination of seeding new Funds that have been launched, and increases in the market value of trading positions and holdings, the Group has materially increased the level of bull positions held in the principal trading activity. Similarly, the year end positions arising from market making activities have materially increased during the year reflecting the growth in this activity. Both the permitted size of each trading book and the size of individual positions are predetermined and dealers are set prescribed limits within which they can deal. Day-to-day risk monitoring is carried out by the Head of the Shore Capital Markets division and the Compliance Department.

Notes To The Accounts (continued)**For the financial year ended 31 December 2005****22. Financial Instruments (continued)****b) Currency Risk**

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

	2005 £'000	2004 £'000
Held in United States dollars	8,952	5,556
Held in Euros	-	697
	<u>8,952</u>	<u>6,253</u>

The Group enters into forward contracts for the sale of foreign currencies in order to hedge its exposure to fluctuations in currency rates in respect of these bull positions and other holdings. These forward contracts are retranslated at the rate prevailing at the balance sheet date and any change in value is taken to the Income Statement. As at the year end the balance sheet value of forward contracts that were hedging bull positions and other holdings was £9,231,000 (2004: £5,721,000). There were no unhedged forward contracts at the current or prior year ends.

c) Interest Rate Risk

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

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

d) Credit Risk

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

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

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

Notes To The Accounts (continued)

For the financial year ended 31 December 2005

23. Transition from UK GAAP to IFRS

a) Introduction

From 1 January 2005, the Group is required by European Directives to report its consolidated financial statements under International Financial Reporting Standards (IFRS), as endorsed by the European Union (EU). This note explains how the changes in accounting treatment under IFRS impact on the Group's previously reported financial information for the year ended 31 December 2004 prepared under UK Generally Accepted Accounting Principles (UK GAAP). The date of transition to IFRS is 1 January 2004, being the start of the earliest period of comparative information.

A summary of the impact on the Group of the transition to IFRS for 2004 is provided from section d) onwards (see below).

The most significant changes arising from the transition to IFRS are:

- the cessation of goodwill amortisation (IFRS 3)
- not accruing a liability for dividends that have not been declared and approved (IAS 10)
- the inclusion of fair value charges in respect of outstanding employee and director share options granted after 7 November 2002 and not vested by 1 January 2005, spread over the vesting period (IFRS 2).

b) Transitional arrangements

IFRS 1 'First-Time Adoption of International Financial Reporting Standards' permits companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the transition period. The Group's application of the optional exemptions is as follows:

Business combinations

The Group has chosen not to apply IFRS 3 'Business Combinations' retrospectively to business combinations that occurred prior to 1 January 2004.

Share based payments

The Group has chosen not to apply IFRS 2 'Share-based Payment' to share option awards that were granted on or before 7 November 2002 or to those granted after 7 November 2002 and which had vested by 1 January 2005.

Exemption from using IAS 32 and IAS 39 in comparatives

The Group has chosen to take advantage of the exemption within IFRS 1 that allows comparative information presented in the first year of adoption of IFRS not to comply with IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement'. These standards have been applied from 1 January 2005 only.

Notes To The Accounts (continued)

For the financial year ended 31 December 2005

23. Transition from UK GAAP to IFRS (continued)

c) Key impact analysis

IFRS 3 - Business Combinations

In accordance with the transitional provisions of IFRS 1, the Group has chosen to apply IFRS 3 prospectively from the date of transition. This results in the value of goodwill arising from previous acquisitions being frozen at the value held on the Group balance sheet as at 1 January 2004 and the reversal of any amortisation charged in the year to 31 December 2004. From 1 January 2004, goodwill is subject to an annual impairment review in accordance with the standard and will be impaired where there are indications that the carrying value may not be recoverable. Under UK GAAP, goodwill was amortised over its expected useful life up to 20 years.

This change results in the reversal of £23,000 previously charged to the income statement under UK GAAP for the year ended 31 December 2004. Closing balance sheet equity is therefore increased by £23,000.

IAS 10 - Events after the Balance Sheet Date

Under IAS 10, assets and liabilities that existed at the balance sheet date should be adjusted for certain subsequent events that existed at the balance sheet date, but not for events that are indicative of conditions that arose subsequent to the balance sheet date. The main effect of this is that under IAS 10, entities are not permitted to recognise a liability for dividends declared after the balance sheet date. Under UK GAAP proposed dividends at the half year and year end were accrued although there was no obligation to pay until the dividend was declared.

Interim and final dividends are now recorded as an appropriation of shareholders' funds in the period that they are declared by the Board. The overall impact of this change is to increase the opening balance sheet equity as at 1 January 2004 by £525,000 and increase the closing balance sheet equity as at 31 December 2004 by £1,003,000.

IFRS 2 - Share-based payments

The Group recognises a charge to the income statement for the fair value of outstanding share options granted to employees and directors after 7 November 2002 and which had not vested by 1 January 2005. The charges are calculated using the Black-Scholes Option Pricing Model and are spread over the relevant vesting periods. Under UK GAAP, there was no charge recognised in the income statement in relation to share options granted.

There is a decrease to retained earnings and an increase to other reserve of £60,000 on the opening 1 January 2004 balance sheet. There is a negative impact on profit before tax in the income statement for the year ended 31 December 2004 of £54,000.

Notes To The Accounts (continued)

For the financial year ended 31 December 2005

23. Transition from UK GAAP to IFRS (continued)**d) Impact of IFRS on the UK GAAP consolidated income statement for the year ended 31 December 2004**

	UK GAAP £'000 (IFRS Format)	IFRS 3 Goodwill £'000	IFRS2 Share-based payments £'000	IAS 10 Dividends £'000	IFRS £'000
Revenue	17,023	-	-	-	17,023
Administrative expenditure	(11,049)	23	(54)	-	(11,080)
Operating profit	5,974	23	(54)	-	5,943
Investment income	54	-	-	-	54
Interest income	542	-	-	-	542
Finance costs	(31)	-	-	-	(31)
	565	-	-	-	565
Profit before taxation	6,539	23	(54)	-	6,508
Taxation	(1,954)	-	-	-	(1,954)
Profit for the year	4,585	23	(54)	-	4,554
Attributable to:					
Equity holders of the parent	4,305	23	(54)	-	4,274
Minority interest	280	-	-	-	280
	4,585	23	(54)	-	4,554

Notes To The Accounts (continued)

For the financial year ended 31 December 2005

23. Transition from UK GAAP to IFRS (continued)**e) Impact of IFRS on the UK GAAP consolidated balance sheet as at 1 January 2004**

	UK GAAP £'000	IFRS 3 Goodwill £'000	IFRS2 - Share based payments £'000	IAS 10 Dividends £'000	IFRS £'000
Assets	(IFRS Format)				
Non-Current Assets					
Goodwill	381		-	-	381
Property, plant and equipment	431	-	-	-	431
Available-for-sale investments	1,379	-	-	-	1,379
	2,191	-	-	-	2,191
Current Assets					
Bull positions and other holdings	20,106	-	-	-	20,106
Trade and other receivables	13,028	-	-	-	13,028
Cash and cash equivalents	5,690	-	-	-	5,690
	38,824	-	-	-	38,824
Total Assets	41,015	-	-	-	41,015
Current Liabilities					
Bear positions	(818)	-	-	-	(818)
Trade and other payables	(7,673)	-	-	-	(7,673)
Tax liabilities	(518)	-	-	-	(518)
Bank overdrafts	(332)	-	-	-	(332)
Proposed dividends	(525)	-	-	525	-
	(9,866)	-	-	525	(9,341)
Non Current Liabilities					
Provision for liabilities and charges	(129)	-	-	-	(129)
Total Liabilities	(9,995)	-	-	525	(9,470)
					-
Net Current Assets	28,958	-	-	525	29,483
Net Assets	31,020	-	-	525	31,545
Equity					
Capital and Reserves					
Called up share capital	5,255	-	-	-	5,255
Share premium account	-	-	-	-	-
Capital redemption reserve	971	-	-	-	971
Other reserve	49	-	60	-	109
Retained earnings	24,282	-	(60)	525	24,747
Equity attributable to equity holders of the parent	30,557	-	-	525	31,082
Minority interest	463	-	-	-	463
Total equity	31,020	-	-	525	31,545

Notes To The Accounts (continued)

For the financial year ended 31 December 2005

23. Transition from UK GAAP to IFRS (continued)**f) Impact of IFRS on the UK GAAP consolidated balance sheet as at 31 December 2004**

	UK GAAP £'000	IFRS 3 Goodwill £'000	IFRS2 - Share based payments £'000	IAS 10 Dividends £'000	IFRS £'000
Assets	(IFRS Format)				
Non-Current Assets					
Goodwill	358	23	-	-	381
Property, plant and equipment	570	-	-	-	570
Available-for-sale investments	1,369	-	-	-	1,369
	2,297	23	-	-	2,320
Current Assets					
Bull positions and other holdings	29,018	-	-	-	29,018
Trade and other receivables	19,404	-	-	-	19,404
Cash and cash equivalents	7,132	-	-	-	7,132
	55,554	-	-	-	55,554
Total Assets	57,851	23	-	-	57,874
Current Liabilities					
Bear positions	(1,241)	-	-	-	(1,241)
Trade and other payables	(13,712)	-	-	-	(13,712)
Tax liabilities	(1,873)	-	-	-	(1,873)
Bank overdrafts	(4,932)	-	-	-	(4,932)
Proposed dividends	(1,003)	-	-	1,003	-
	(22,761)	-	-	1,003	(21,758)
Non Current Liabilities					
Provision for liabilities and charges	(841)	-	-	-	(841)
					-
Total Liabilities	(23,602)	-	-	1,003	(22,599)
Net Current Assets	32,793	-	-	1,003	33,796
Net Assets	34,249	23	-	1,003	35,275
Equity					
Capital and Reserves					
Called up share capital	5,270	-	-	-	5,270
Share premium account	82	-	-	-	82
Capital redemption reserve	971	-	-	-	971
Other reserve	49	-	114	-	163
Retained earnings	26,834	23	(114)	1,003	27,746
Equity attributable to equity holders of the parent	33,206	23	-	1,003	34,232
Minority interest	1,043	-	-	-	1,043
Total Equity	34,249	23	-	1,003	35,275

Notes To The Accounts (continued)

For the financial year ended 31 December 2005

23. Transition from UK GAAP to IFRS (continued)**g) Impact of IFRS on the UK GAAP company balance sheet as at 1 January 2004**

	UK GAAP £'000	SIC 12 EBT £'000	IFRS2 - Share based payments £'000	IAS 10 Dividends £'000	IFRS £'000
Assets	(IFRS Format)				
Non-Current Assets					
Property, plant and equipment	75	-	-	-	75
Available-for-sale investments	32,485	-	-	-	32,485
	32,560	-	-	-	32,560
Current Assets					
Trade and other receivables	265	-	-	-	265
Amounts owed by subsidiary undertakings	6,536	-	-	-	6,536
Loan to subsidiary	2,750	-	-	-	2,750
Cash and cash equivalents	1,590	(535)	-	-	1,055
	11,141	(535)	-	-	10,606
Total Assets	43,701	(535)	-	-	43,166
Current Liabilities					
Trade and other payables	(358)	-	-	-	(358)
Amounts owed to subsidiary undertakings	(9,303)	-	-	-	(9,303)
Bank overdrafts	(55)	-	-	-	(55)
Dividend payable	(525)	-	-	525	-
	(10,241)	-	-	525	(9,716)
Non Current Liabilities					
Provision for liabilities and charges	(129)	-	-	-	(129)
Total Liabilities	(10,370)	-	-	525	(9,845)
					-
Net Current Assets	900	(535)	-	525	890
Net Assets	33,331	(535)	-	525	33,321
Equity					
Capital and Reserves					
Called up share capital	5,255	-	-	-	5,255
Capital redemption reserve	971	-	-	-	971
Other reserve	-	-	60	-	60
Retained earnings	27,105	(535)	(60)	525	27,035
Total equity	33,331	(535)	-	525	33,321

Notes To The Accounts (continued)

For the financial year ended 31 December 2005

23. Transition from UK GAAP to IFRS (continued)

h) Impact of IFRS on the UK GAAP company balance sheet as at 31 December 2004

	UK GAAP £'000	SIC 12 EBT £'000	IFRS2 Share Based Payment £'000	IAS 10 Dividends £'000	IFRS £'000
Assets	(IFRS Format)				
Non-Current Assets					
Property, plant and equipment	120	-	-	-	120
Available-for-sale investments	32,549	(64)	-	-	32,485
	32,669	(64)	-	-	32,605
Current Assets					
Trade and other receivables	144	(25)	-	-	119
Amounts owed by subsidiary undertakings	7,386	-	-	-	7,386
Loan to subsidiary	2,575	-	-	-	2,575
Cash and cash equivalents	924	(532)	-	-	392
	11,029	(557)	-	-	10,472
Total Assets	43,698	(621)	-	-	43,077
Current Liabilities					
Trade and other payables	(1,152)	-	-	-	(1,152)
Amounts owed to subsidiary undertakings	(8,152)	-	-	-	(8,152)
Tax liabilities	(118)	-	-	-	(118)
Bank overdrafts	(33)	-	-	-	(33)
Dividend payable	(1,003)	-	-	1,003	-
	(10,458)	-	-	1,003	(9,455)
Non Current Liabilities					
Provision for liabilities and charges	(841)	-	-	-	(841)
Total Liabilities	(11,299)	-	-	1,003	(10,296)
Net Current Assets	571	(557)	-	1,003	1,017
Net Assets	32,399	(621)	-	1,003	32,781
Equity					
Capital and Reserves					
Called up share capital	5,270	-	-	-	5,270
Share premium account	82	-	-	-	82
Capital redemption reserve	971	-	-	-	971
Other reserve	-	-	114	-	114
Retained earnings	26,076	(621)	(114)	1,003	26,344
Total equity	32,399	(621)	-	1,003	32,781

Biographies

Set out below are the biographies of those directors who retire by rotation in the current year and offer themselves for re-election as set out on page 10.

Michael van Messel, *Operations Director*

Michael van Messel, 41. After a degree in Physics at Imperial College, London, he joined Hacker Young and qualified as a Chartered Accountant. He then worked as a specialist in their tax department and subsequently for Coopers & Lybrand within its financial services group. He joined Shore Capital in 1993 as Group Financial Controller and became Operations Director in 2000. He is responsible for all operations including finance and compliance.

Barclay Douglas, *Non-executive Director*

Barclay Douglas, 50, qualified as a chartered accountant within Arthur Andersen after gaining a degree in Scottish Law. He has spent much of his career in private equity including 4 years with Murray Johnstone, latterly running the London office. He was a principal in a purchase of Sock Shop from receivership and, as finance director, assisted in restoring it to profit prior to a sale in 1994. He then joined the private equity division of Mercury Asset Management ("MAM") as a director where he spent 6 years. He has served on the boards of several public and private companies including Britt Allcroft, Luminar and as MAM's representative for the Stationery Office (formerly HMSO) and Worldmark International. He chairs the Audit Committee and the Remuneration Committee.