

Shore Capital Group plc
Report and Financial Statements
31 December 2001



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Officers And Professional Advisers

Directors

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

*Non-executive

Secretary

B G Lee

Registered Number

2089582

Registered Office

Bond Street House
14 Clifford Street
London W1S 4JU

Sponsor

Strand Partners Limited
110 Park Street
London W1Y 3RB

Stockbroker

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

Registrar

Capita IRG plc
Bourne House
PO Box 166
34 Beckenham Road
Beckenham
Kent BR3 4TU

Auditors

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

Solicitors

Berwin Leighton Paisner
Adelaide House
London Bridge
London EC4R 9HA

S J Berwin & Co
222 Grays Inn Road
London WC1X 8HB

Bankers

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

Bank Leumi (UK) plc
20 Stratford Place
London W1N 9AF

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

Chairman's Statement

We are pleased to report that, despite difficult trading conditions, particularly in the niches in which we operate, we achieved a profit before exceptional charges and tax of £3.55m in 2001.

As outlined in our interim statement this result further demonstrated the robustness of our business model. The model is based on low fixed overheads, costs largely linked to turnover and high operating margins in our chosen niches. This is structured to generate operational profitability in the most difficult trading conditions whilst giving high exposure to any improvement in market conditions.

Financial Review

We achieved operating profits of £1.83m from core activities on turnover levels reflecting the subdued level of market activity. Profit before exceptional charges and tax was £3.55m, generating earnings per share before exceptional charges of 0.54p on both a basic and fully diluted basis.

We incurred an exceptional charge of £3.18m following further write-downs of the JellyWorks portfolio and have now realised over £28m in cash from JellyWorks. The balance was held at £2.07m at 31 December 2001, of which £600,000 was held in securities which are now quoted. We moved to the Official List in April 2001 and also incurred an exceptional charge of £190,000 for the costs of moving. Profit on ordinary activities before taxation and after these exceptional charges was £172,000.

Strong balance sheet

At the balance sheet date we had net cash of £38.3m, after deducting short term borrowings of £1.1m used to provide secured margin finance to clients of an equivalent amount. This cash is available to fund our core operating businesses and/or for further acquisitions. We held £2.1m in investments, the bulk of which was in the Puma (II) Fund discussed below. The net value (after deducting bear positions) of our total principal holdings in stock, including our inventory from market-making in approximately 420 stocks, was £5.86m.

Dividend

Given our strong cash position, the Board intends to pay a maintained final dividend of 0.28p per share, making 0.44p per share for the year (2000: 0.44p). The dividend will be paid on 2nd May 2002 to shareholders on the register as at 5th April, 2002.

Operating Review

The business remains focused on serving entrepreneurs and providing related services in our four chosen niches, namely:

- high net worth private client advisory and investment management
- investment banking for small/medium fast growth companies
- small cap market-making
- absolute return products (alternative asset classes)

We plan to extend these services through a mixture of organic growth and acquisition. The key is to attract talented people. The current wave of restructuring in the City provides the perfect climate to recruit and motivate the right type of personnel at a senior level whilst retaining our business model which combines low fixed overheads with profit sharing and equity participation.

We are delighted to have recently appointed Chris Ring as managing director of private clients advisory and investment management services. We hope to appoint managing directors of investment banking and growth capital in the near future. We are also delighted that all employees recently took advantage of the opportunity to give up existing options in favour of a new three year scheme. Whilst the strike price was lowered in all cases to 20½p, the trade off was a longer duration demonstrating the commitment of all the staff and the tight knit nature of our Group.

We have gradually increased our headcount to 38 and expect this to continue, taking a somewhat contra-cyclical view of the markets in which we operate. Areas of expansion include market-making, where we now have a team of 8 people making markets in approximately 420 stocks and where we plan to be an early participant in the new Stock Exchange Retail Service Provider ("RSP") gateway which is expected to go live in May of this year. This should enable us to transact business electronically with the retail market and compete on a level playing field with the current, typically larger, RSPs.

We have also expanded our capacity in the corporate area, particularly private equity and venture capital syndication. We successfully completed three fund raisings in the second half of 2001 and a further two in the current year. Of these placings, three were structured and targeted to attract finance from venture capital trusts, one of the few growth areas in an otherwise depressed small companies arena.

I should like to take the opportunity to thank our talented and dedicated staff for their efforts throughout the year.

Alternative Asset Class

Puma II

Puma II has continued to hold its own in somewhat of a bloodbath in the investment areas it targets—small caps both in the old and new economy in predominantly UK and Israel. In the two years since inception the Fund has grown by 3.1% and had just under £30m of cash available for investment at the year end. Whilst not yet generating the sort of returns we set out to achieve, we believe that given its "long only" nature this is a creditable performance taking into account the environment which we have experienced over the last two years.

Hedge Funds

In the Hedge Fund arena, we have started to build our own portfolio following intensive research in this area. This limited portfolio has achieved an IRR of 16.3% in 11 months since inception. In due course, we expect to expand this significantly in conjunction with input from external investment advisers with whom we have close working relationships.

New Funds

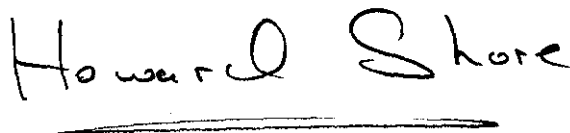
The launch of Puma III is planned for the second half of the year, once Puma II has been more than 50% invested. Other new products are in the pipeline, about which we hope to report in the near term.

Current Trading and Prospects

As predicted in our interim statement in September, the investment banking market has remained difficult and, if anything, deteriorated further during the period. However, having sustained a 'bear' market for 2 years and with strong signs of a significant further shake out in the City over the coming months, we expect an improvement in the market conditions in which we operate at some stage over the next 12 months. What exactly will trigger this is almost impossible to predict, but history shows that cycles do turn when least expected. An early referendum on entry into the Eurozone (and consequential expectations of lower medium term interest rates) could be one such scenario. The danger lies in the alternative possibility of an upturn and no entry to the Eurozone bringing higher interest rates, which in our view would kill a recovery and probably lead to a 'double dip'.

Overall, we have managed to continue to sustain operating profitably and at the same time increase our human resources. Operating with low fixed overheads in our chosen niches, we have a great opportunity to expand our platform when others in the industry are contracting. We hope and expect to use our team and our cash to be more aggressive when the first signs of improvement appear, whilst always seeking to be opportunistic in the meantime.

Howard P Shore

A handwritten signature in black ink that reads "Howard P Shore". The signature is written in a cursive style with a horizontal line underneath the name.

19 March 2002

Corporate Governance

General

Throughout the year ended 31 December 2001 the Group has been in compliance with the Code provisions set out in Section 1 of the Combined Code on Corporate Governance issued by the UK Listing Authority, with the exception of the matters noted below in respect of the joint role of the Chairman and Chief Executive, the Nominations Committee, the appointment of a senior independent director and the composition of the Audit Committee.

Board of Directors

The Board currently comprises three executive and three non-executive directors. It carries ultimate responsibility for the conduct of the business of the Group. The Board maintains full control and direction over appropriate strategic and financial issues through regular meetings and reports to ensure that the Board is supplied with all the information it needs. Two of the non-executive directors are independent. Mr M Shear is the deputy general manager of Bank Leumi (UK) plc, a major shareholder.

Howard Shore is Executive Chairman of the Board and also undertakes the function of full-time chief executive. In view of the size of the Group, the Board do not consider it in the best financial interests of the Group to split the roles. In addition they consider it of paramount importance in such a people oriented business that all staff are aware that the ultimate point for day to day decisions rests with one identifiable and accessible person.

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

Remuneration Committee

The Board has appointed a Remuneration Committee that comprises two non-executive Directors, Mr J B Douglas and Mr M Shear, together with Mr G B Shore, and is chaired by Mr M Shear. The Remuneration Committee has given full consideration to Section B of the Best Practice Provisions annexed to the Listing Rules of the UK Listing Authority. The principal function of the Remuneration Committee is to determine the Group's policy on executive remuneration. It makes its decisions in consultation with the Chairman and Chief Executive. It 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. Details of Directors' remuneration and their interests in the Share Option Plan are given in note 6 to the financial statements. No Director has a service contract for longer than 12 months.

In accordance with the Principles of the Combined Code, Mr M Shear and Dr Z Marom retire and offer themselves for re-election.

Audit Committee

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

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

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. They include:

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

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

Directors' Report

The Directors present their annual report and the audited financial statements of the Group for the financial year ended 31 December 2001.

Activities and business review

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

A review of the year and future developments is contained in the Chairman's statement on pages 2 to 4.

Results and dividends

The results for the financial year are set out on page 11. An interim dividend was paid during the year equivalent to 0.16p per share (2000: 0.16p); the directors propose a final dividend of 0.28p (2000: 0.28p) per share making a total for the year of 0.44p (2000: 0.44p).

Share capital

There were no movements in the share capital during the year.

Fixed assets

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

Directors

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

	2p ordinary shares	
	31 December 2001	31 December 2000
H P Shore	115,147,359	115,147,359
G B Shore	21,652,820	21,652,820
M L van Messel	2,664,042	2,664,042
M Shear *	-	-
Dr Z Marom	501,521	501,521
J B Douglas	600,000	533,729

* M Shear is deputy general manager of Bank Leumi (UK) plc which owned 90,250,000 (2000: 90,250,000) ordinary shares of the Company at 31 December 2001.

Charitable donations

Charitable donations of £19,000 (2000: £13,000) were made by the Group during the year.

Directors' Report (continued)

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;
- 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 37 days (2000: 40 days).

Major shareholdings

Shareholders, other than Directors, holding more than 3% of the shares of the Company at 31 December 2001 were

	Ordinary Shares	%
Bank Leumi Group	91,014,541	20.04
Easton Investments Ltd	80,000,000	17.62

Auditors

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

By order of the Board



B G Lee
Secretary

Bond Street House
14 Clifford Street
London W1S 4JU

19 March 2002

Statement Of Directors' Responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, 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.

Auditors' Report To The Members Of Shore Capital Group plc

We have audited the financial statements of Shore Capital Group Plc for the year ended 31 December 2001 which comprise the profit and loss account, the balance sheets, the cash flow statement and the related notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards, and the Listing Rules of the Financial Services Authority.

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

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

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and 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 United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. 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 circumstances of the company and the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2001 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

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



19 March 2002

Consolidated Profit And Loss Account

For the year ended 31 December 2001

	Note	Year ended 31 December 2001			Year ended 31 December 2000
		Before exceptional items	Exceptional items	Total	Total
		2001 £'000	2001 £'000	2001 £'000	2000 £'000
Turnover	1,2	6,291	(3,184)	3,107	19,231
Administrative expenditure	2	(4,462)	(190)	(4,652)	(10,314)
Operating profit/(loss)	3	1,829	(3,374)	(1,545)	8,917
(Loss)/profit arising from fixed asset investments		(201)	-	(201)	1,960
Interest receivable and similar income - excluding interest receivable from client loans	4	1,960	-	1,960	843
Interest payable and similar charges	5	(42)	-	(42)	(172)
		1,717	-	1,717	2,631
Profit on ordinary activities before taxation	2	3,546	(3,374)	172	11,548
Tax on profit on ordinary activities	7	(1,115)	955	(160)	(3,535)
Profit on ordinary activities after taxation		2,431	(2,419)	12	8,013
Equity dividends	9	(1,971)	-	(1,971)	(1,754)
Profit/(loss) for the financial year transferred to/(from) reserves	21	460	(2,419)	(1,959)	6,259
Earnings per share	10	0.54p		0.00p	2.16p
Diluted earnings per share	10	0.54p		0.00p	2.12p

All transactions are in respect of continuing operations.

There are no recognised gains and losses for the current financial year and preceding financial year other than those taken into account in arriving at the profit on ordinary activities after taxation of £12,000 (2000: £8,013,000) shown above.


Consolidated Balance Sheet

As at 31 December 2001


	Note	2001 £'000	2000 £'000
Fixed Assets			
Intangible fixed assets	12	429	453
Tangible fixed assets	13	646	673
Investments	14	2,085	2,449
Investment in own shares	6.c	1,000	1,000
		<u>4,160</u>	<u>4,575</u>
Current Assets			
Bull positions and other holdings	15	6,613	10,008
Debtors	16	5,689	7,755
Cash at bank and in hand		41,906	42,629
		<u>54,208</u>	<u>60,392</u>
Creditors - amounts falling due within one year	17	(9,848)	(14,458)
		<u>44,360</u>	<u>45,934</u>
Net Current Assets			
		<u>48,520</u>	<u>50,509</u>
Total Assets Less Current Liabilities			
		<u>48,520</u>	<u>50,509</u>
Provision for Liabilities and Charges	18	-	(30)
		<u>48,520</u>	<u>50,479</u>
Capital And Reserves			
Called up share capital	20,21	9,081	9,081
Share premium account	21	6,775	6,775
Merger relief reserve	21	26,653	26,653
Capital redemption reserve	21	30	30
Other reserve	21	78	78
Profit and loss account	21	5,903	7,862
		<u>48,520</u>	<u>50,479</u>
Total Equity Shareholders' Funds	21	<u>48,520</u>	<u>50,479</u>

Approved by the Board of Directors on 19 March 2002.

Signed on behalf of the Board of Directors



H P Shore
Director



G B Shore
Director

Company Balance Sheet

As at 31 December 2001

	Note	2001 £'000	2000 £'000
Fixed Assets			
Tangible fixed assets	13	49	71
Investments	14	32,485	32,485
Investment in own shares	6.c	1,000	1,000
		<u>33,534</u>	<u>33,556</u>
Current Assets			
Debtors	16	5,162	3,947
Cash at bank and in hand		5,479	7,281
		<u>10,641</u>	<u>11,228</u>
Creditors - amounts falling due within one year	17	(1,621)	(2,197)
Net Current Assets		<u>9,020</u>	<u>9,031</u>
Total Assets Less Current Liabilities		42,554	42,587
Provision for Liabilities and Charges	18	-	(30)
		<u>42,554</u>	<u>42,557</u>
Capital And Reserves			
Called up share capital	20,22	9,081	9,081
Share premium account	22	6,775	6,775
Merger relief reserve	22	26,653	26,653
Capital redemption reserve	22	30	30
Profit and loss account	22	15	18
Equity Shareholders' Funds		<u>42,554</u>	<u>42,557</u>

Approved by the Board of Directors on 19 March 2002.

Signed on behalf of the Board of Directors

H P Shore
Director

G B Shore
Director

Consolidated Cash Flow Statement

For the year ended 31 December 2001

	Note	2001 £'000	2000 £'000
Net Cash Inflow From Operating Activities	24	1,944	11,953
Returns On Investments And Servicing Of Finance	26	1,862	537
Taxation		(2,853)	(2,363)
Capital Expenditure And Financial Investment	26	18	1,309
Acquisitions	26	-	22,396
Equity Dividends Paid		(1,971)	(500)
Cash (Outflow)/Inflow Before Use Of Liquid Resources And Financing		(1,000)	33,332
Management Of Liquid Resources	26	-	18
Financing	26	-	6,702
(Decrease)/Increase In Cash In The Year	25	(1,000)	40,052

Notes To The Accounts

For the year ended 31 December 2001

1. Accounting Policies

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

Accounting convention

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

Turnover

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

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

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and all subsidiaries for the financial year ended 31 December 2001.

Trade date accounting

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

Bull and bear trading positions

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

Depreciation

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

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

Property and Operating leases

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

Pension costs

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

Work in progress

In the case of corporate advisory engagements for which the work is substantially complete or which are at a stage where work for which separate payment is due is substantially complete, fees which will become due but are not yet invoiced are accounted for as work in progress. Where such fees are contingent on the outcome of a transaction they are only accounted for after the transaction has exchanged.

NOTES TO THE ACCOUNTS

For the financial year ended 31 December 2001

1. ACCOUNTING POLICIES (continued)

Deferred taxation

Deferred taxation is provided at the anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

Foreign exchange

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

Intangible fixed assets

On the acquisition of a business or an interest in a business which is to be consolidated, fair values are attributed to the share of identifiable net assets acquired. Where the cost of acquisition exceeds the fair value attributable to such assets, the difference is treated as purchased goodwill. Such goodwill is capitalised and amortised through the profit and loss account on a straight line basis over the lower of 20 years and the estimated useful life of the assets. Where purchased goodwill is negative, a periodic test is carried out to determine the amount that should be recognised in the profit and loss account.

Fixed asset investments

Investments in unquoted securities held as fixed assets are valued by the Directors at the most recent available representative arm's length price. Where such securities are quoted, they are valued by reference to the market price and the marketability of the shares. Any excess of the valuation over cost is credited to the revaluation reserve. No deferred tax is provided where it is not the present intention of the Directors to dispose of the investment.

Investment in own shares

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

Employee Benefit Trust

A charge would arise in the profit and loss account if the book value of shares held by the Employee Benefit Trust was less than the amount of consideration grantees are required to pay on exercising their options. Where applicable, such charge would be spread over the period to which it relates.

Notes To The Accounts

For the financial year ended 31 December 2001

2. Analysis Of Turnover And Profit Before Tax

Turnover	Before exceptional items	Exceptional items	Total	Total
	2001 £'000	2001 £'000	2001 £'000	2000 £'000
Investment banking activities	6,291	(3,184)	3,107	19,231
	<u>6,291</u>	<u>(3,184)</u>	<u>3,107</u>	<u>19,231</u>
Profit before taxation				
Investment banking activities	3,546	(3,374)	172	11,548
	<u>3,546</u>	<u>(3,374)</u>	<u>172</u>	<u>11,548</u>

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

Exceptional items

The exceptional turnover relates to the net loss attributable to the current period arising from the portfolio of holdings acquired from JellyWorks plc during the year ended 31 December 2000.

The exceptional administrative expenditure relates to costs associated with the listing of the Group's shares on the Official List of the London Stock Exchange.

3. Operating Profit

	2001 £'000	2000 £'000
Operating profit is stated after charging the following:		
Auditors' remuneration - audit fees	37	32
- non-audit fees	64	37
Depreciation	172	150
Amortisation of goodwill	24	60
Property lease rentals	<u>221</u>	<u>202</u>

Notes To The Accounts

For the financial year ended 31 December 2001

4. Interest Receivable And Similar Income

	2001 £'000	2000 £'000
Bank interest	1,830	773
Other interest receivable	130	70
	<u>1,960</u>	<u>843</u>

Loan interest receivable from client lending is included within turnover.

5. Interest Payable And Similar Charges

	2001 £'000	2000 £'000
Bank loans and overdrafts repayable within five years	22	155
Other interest payable	20	17
	<u>42</u>	<u>172</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:

	2001 No.	2000 No.
Securities	27	23
Corporate Advisory	7	7
	<u>34</u>	<u>30</u>

b) The costs incurred in respect of these employees comprise

	2001 £'000	2000 £'000
Wages and salaries	1,647	2,840
Commission	234	2,276
Social security costs	219	605
Pension costs	64	56
	<u>2,164</u>	<u>5,777</u>

Notes To The Accounts

For the financial year ended 31 December 2001

6. Employees and Directors (continued)

c) Employee Benefit Trust

Investment in Own Shares comprises shares in the Group held by an Employee Benefit Trust. Its purpose is to acquire shares in the Group over which a Board of Trustees, in consultation with the directors of the company, have the power to grant options for the benefit of the employees of the Group. Such options will normally vest over a number of years. As at 31 December 2001, the Trust held 6,114,874 ordinary shares and at that date options had been granted over 3,785,062 (2000: 3,444,580) shares. As and when dividends are paid, the trustees may waive the entitlement of these shares to any such dividend. The Investment in Own Shares is held in the accounts at cost of £1,000,000. Based on the year end closing price, the value of the investment is £1,345,000.

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 between three and ten years from the date of grant. As at 31 December 2001, employees had been granted 20,029,959 (2000: 20,507,558) options under the plan representing 4.22% of the Group's issued share capital on a fully diluted basis.

e) Emoluments of the Directors

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

Notes To The Accounts

For the financial year ended 31 December 2001

6. Employees and Directors (continued)

2000	Gross salary	Bonus and other	Fees	Pension Contributions	Benefits	Total
	£'000	£'000	£'000	£'000	£'000	£'000
H P Shore	106	866	-	-	25	997
G B Shore	85	464	-	10	12	571
M L van Messel *	29	45	-	3	1	78
M Shear	-	-	-	-	-	-
Z Marom *	-	15	4	-	-	19
J B Douglas *	-	10	2	-	-	12
U Galili	-	-	-	-	-	-
A Shore	14	10	-	-	-	24
Prof A Swary	-	-	1	-	-	1
I Shrem	-	-	-	-	-	-
	<u>234</u>	<u>1,410</u>	<u>7</u>	<u>13</u>	<u>38</u>	<u>1,702</u>

* Appointed during the year.

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

	Number of options over issued ordinary shares	Number of options over unissued ordinary shares	Date of grant	Exercise price per ordinary share	Exercise date
H P Shore	-	6,068,331	5 May 2000	29.66p *	Between 5 May 2003 and 4 May 2010
G B Shore	-	1,685,647	5 May 2000	29.66p *	Between 5 May 2003 and 4 May 2010
M L van Messel	-	842,823	5 May 2000	29.66p *	Between 5 May 2003 and 4 May 2010
J B Douglas	276,066	-	27 June 2000	16.35p	Before 26 June 2010

* After the year end, the options over unissued ordinary shares were surrendered and re-issued in the same amounts with an exercise price per ordinary share of 20.5p and an exercise date between 15 January 2005 and 14 January 2012.

Options over issued shares relate to options granted pursuant to the Shore Capital Group plc Employee Benefit Trust while options over unissued shares relate to options granted pursuant to the Shore Capital Group plc Share Option Plan. No options were exercised during the year. The closing price of the shares at 31 December 2001 was 22p and the range during the year was 18.5p to 35.5p.

g) Related party transactions

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

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

Notes To The Accounts

For the financial year ended 31 December 2001

6. Employees and Directors (continued)

g) Related party transactions (continued)

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

7. Tax On Profit On Ordinary Activities

	2001 £'000	2000 £'000
Provision for United Kingdom corporation tax at 30% (2000: 30%)	181	3,564
Overprovision in prior years	-	(10)
Deferred tax	(21)	(19)
	<u>160</u>	<u>3,535</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 profit after tax for the financial year amounted to £1,968,000 (2000: £2,560,000).

9. Dividends

	2001 £'000	2000 £'000
First interim ordinary dividend paid equivalent to 0.16p per share (2000: 0.16p)	717	500
Final proposed ordinary dividend of 0.28p per share (2000: 0.28p)	1,254	1,254
	<u>1,971</u>	<u>1,754</u>

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

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 FRS14 were as follows:

	2001		2000	
	Basic	Diluted	Basic	Diluted
Earnings (£'000)	12	12	8,013	8,013
Number of shares	447,969,772	449,456,581	371,740,507	377,099,843
Earnings per share	<u>0.00p</u>	<u>0.00p</u>	<u>2.12p</u>	<u>2.16p</u>

Notes To The Accounts

For the financial year ended 31 December 2001

10. Earnings per share (continued)

Calculation of number of shares

	2001		2000	
	Basic	Diluted	Basic	Diluted
At 1 January	447,969,772	447,969,772	338,172,325	338,172,325
Weighted average number of shares issued	-	-	33,568,182	33,568,182
Dilutive effect of share option schemes	-	1,486,809	-	5,359,336
At 31 December	<u>447,969,772</u>	<u>449,456,581</u>	<u>371,740,507</u>	<u>377,099,843</u>

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

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

11. Lease Commitments

Operating leases

	2001 £'000	2000 £'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 one and five years	<u>-</u>	<u>-</u>
Leases expiring between five and ten years	<u>176</u>	<u>176</u>

Notes To The Accounts

For the financial year ended 31 December 2001

12. Intangible Fixed Assets

Cost	Goodwill arising on the acquisition of:	
		Minority interest in subsidiary £'000
At 1 January 2001		477
Additions		-
At 31 December 2001		<u>477</u>
Amortisation		
At 1 January 2001		24
Charge for the year		24
At 31 December 2001		<u>48</u>
Net Book Value		
At 31 December 2001		<u>429</u>
At 31 December 2000		<u>453</u>

13. Tangible Fixed Assets - Group

	Leasehold premises £'000	Fixtures and equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 January 2001	235	409	259	903
Additions	54	91	-	145
Disposals	-	-	-	-
At 31 December 2001	<u>289</u>	<u>500</u>	<u>259</u>	<u>1,048</u>
Depreciation				
At 1 January 2001	29	143	58	230
Charge for the year	28	101	43	172
Disposals	-	-	-	-
At 31 December 2001	<u>57</u>	<u>244</u>	<u>101</u>	<u>402</u>
Net Book Value				
At 31 December 2001	<u>232</u>	<u>256</u>	<u>158</u>	<u>646</u>
At 31 December 2000	<u>206</u>	<u>266</u>	<u>201</u>	<u>673</u>

Notes To The Accounts

For the financial year ended 31 December 2001

13. Tangible Fixed Assets (continued) - Company

	Fixtures and equipment £'000
Cost	
At 1 January and 31 December 2001	92
Depreciation	
At 1 January 2001	21
Charge for the year	22
At 31 December 2001	43
Net Book Value	
At 31 December 2001	49
At 31 December 2000	71

14. Investments

Investments Held As Fixed Assets - Group

	Listed investments £'000	Unlisted investments £'000	Total £'000
At 1 January 2001	949	1,500	2,449
Disposals	-	(150)	(150)
Impairment	(214)	-	(214)
At 31 December 2001	735	1,350	2,085

The impairment of listed investments is included in the profit and loss account within the heading of Loss Arising from Fixed Asset Investments. Based on the year end closing price, the market value of the listed investments is £499,000.

Additional information on unlisted investments:

The unlisted investments comprise an investment in The Puma (II) Fund, an investment fund incorporated in the Cayman Islands. Shore Capital Limited has entered into an Investment Management Contract to procure the services of a Group company to carry out the Investment Management of the Fund. Shore Capital Limited has procured Shore Capital Stockbrokers Limited to carry out these responsibilities. Based on the year end Net Asset Value, the value of the holding is £1,392,000.

Notes To The Accounts

For the financial year ended 31 December 2001

14. Investments (continued)

Investments Held As Fixed Assets – Company

Shares in
subsidiary
undertakings
£'000

At 1 January and 31 December 2001

32,485

Additional information on principal subsidiaries.

Subsidiary	Country of registration and operation	Activity	Portion of ordinary shares and voting rights held
Trading Companies			
Shore Capital Stockbrokers Limited	England and Wales	Broker/dealer	100%
Shore Capital and Corporate Limited	England and Wales	Corporate advisers	100%
Shore Capital Finance Limited	England and Wales	Credit provider	100%
Shore Capital (GP) Limited	England and Wales	General partner	100%
Shore Capital Limited	England and Wales	Management company	100%
Shore Capital Investments Limited	England and Wales	Holds investments	100%
Shore Capital Trading Limited	England and Wales	Trader of holdings in securities	100%
JellyWorks Limited	England and Wales	Dormant	100%
Nominee Company			
Puma Nominees Limited	England and Wales	Nominee company	100%

Notes To The Accounts

For the financial year ended 31 December 2001

15. Trading positions

	Group 2001 £'000	Company 2001 £'000	Group 2000 £'000	Company 2000 £'000
Listed holdings at market value	2,686	-	4,818	-
Unlisted holdings:				
Acquired from JellyWorks plc	2,109	-	5,190	-
Other	1,818	-	-	-
	<u>6,613</u>	<u>-</u>	<u>10,008</u>	<u>-</u>

16. Debtors

	Group 2001 £'000	Company 2001 £'000	Group 2000 £'000	Company 2000 £'000
Margin loans to clients	1,091	-	2,478	-
Trade debtors	3,559	-	4,523	-
Work in progress	148	-	-	-
Amount owed by subsidiary undertakings	-	5,148	-	3,920
Other debtors	588	3	584	14
Prepayments and accrued income	263	11	151	13
Deferred tax	40	-	19	-
	<u>5,689</u>	<u>5,162</u>	<u>7,755</u>	<u>3,947</u>

Other debtors includes amounts of £281,000 that are due after one year.

Notes To The Accounts

For the financial year ended 31 December 2001

17. Creditors - Amounts Falling Due Within One Year

	Group 2001 £'000	Company 2001 £'000	Group 2000 £'000	Company 2000 £'000
Bear positions	750	-	1,058	-
Bank overdrafts (partially secured)	3,581	8	3,304	13
Trade creditors	3,296	-	3,664	-
Amounts owed to subsidiary undertakings	-	153	-	117
Other creditors	117	1	188	-
UK corporation tax	49	(33)	2,721	220
Other taxation and social security	66	-	203	98
Accruals and deferred income	735	238	2,066	495
Proposed dividends	1,254	1,254	1,254	1,254
	<u>9,848</u>	<u>1,621</u>	<u>14,458</u>	<u>2,197</u>

A subsidiary company's bank overdraft facilities are secured by a floating charge over the assets of that company. At 31 December 2001 the subsidiary's overdraft was £2,450,000 (2000: £1,471,000).

Another subsidiary company has given a fixed and floating charge over its assets to its bankers in respect of a facility advance. At 31 December 2001 the subsidiary was utilising £1,082,000 (2000: £1,807,000) of the facility.

18. Provisions For Liabilities And Charges

Group and Company:

	2001 £'000	2000 £'000
Provision for national insurance contributions on share options		
At 1 January 2001	30	-
(Release)/charge for the year	(30)	30
At 31 December 2001	<u>-</u>	<u>30</u>

Deferred taxation at 31 December 2001 of £40,000 (2000: £19,000) is included in debtors. There was no unprovided deferred tax.

19. Capital Commitments

As at 31 December 2001 the Group had no capital commitments.

Notes To The Accounts

For the financial year ended 31 December 2001

20. Called Up Share Capital

	2001 £'000	2000 £'000
Authorised		
625,000,000 ordinary shares of 2p each	12,500	12,500
Allotted and fully paid		
454,084,646 ordinary shares of 2p	9,081	9,081

21. Statement Of Movements in Capital and Reserves - Consolidated

	Called up, allotted and fully paid up share capital £'000	Share premium account £'000	Merger relief reserve £'000	Capital Redemption reserve £'000	Other reserve £'000	Profit and loss account £'000	Total 2001 £'000
Balance at 1 January	9,081	6,775	26,653	30	78	7,862	50,479
Profit for the financial year	-	-	-	-	-	(1,959)	(1,959)
Balance at 31 December	9,081	6,775	26,653	30	78	5,903	48,520

22. Statement Of Movements in Capital and Reserves - Company

	Called up, allotted and fully paid up share capital £'000	Share premium account £'000	Merger relief reserve £'000	Capital Redemption reserve £'000	Profit and loss account £'000	Total 2001 £'000
Balance at 1 January	9,081	6,775	26,653	30	18	42,557
Profit for the financial year	-	-	-	-	(3)	(3)
Balance at 31 December	9,081	6,775	26,653	30	15	42,554

Notes To The Accounts

For the financial year ended 31 December 2001

23. Financial Instruments

The Group's financial instruments comprise, for the purpose of FRS13, cash and liquid resources, trade debtors and creditors arising from operations together with bull and bear positions in equities. The main risks arising from the Group's financial instruments are market risk and currency risk. The Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

The only interest bearing financial assets and liabilities of the Group are cash at bank, bank overdrafts and margin loans to clients as shown in Notes 16, 17 and 28. Cash at bank receives, and bank overdrafts pay, interest at floating rates linked to either bank base rates or money market rates. The group has a £10m overdraft facility renewable annually and a £5m revolving credit facility that is repayable no earlier than December 2004. The margin loans to clients receive interest at a monthly rate that is reviewed as a consequence of movements in money market rates.

a) Market Risk

The Group is exposed to market risk in respect of its trading in equities. The Group carries out a market making activity primarily in small company stocks. This activity is carried out both as a means of supporting its role as advisor and sponsor to companies issuing equities on the UK stock market and to strengthen its presence in the UK small company sector. It also undertakes principal dealing. The fair value at the year end of positions arising from these activities is disclosed in the Financial Statements in Note 15 for bull positions and Note 17 for bear positions.

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

b) Currency Risk

The Group's foreign currency cash and bank balances at the year end were not material and are not separately disclosed in the Financial Statements. Currency is bought or sold at the time of trading in order to meet the funds due or receivable on settlement. The fair value at the year end of bull positions and other holdings that were denominated in foreign currencies was £1,632,000 (2000: £4,366,000).

24. Reconciliation Of Operating (Loss)/Profit To Operating Cash Flows

	2001 £'000	2000 £'000
Operating (loss)/profit	(1,545)	8,917
Depreciation charges	172	150
Amortisation charges	24	60
(Decrease) / increase in provision for NIC on options	(30)	30
Decrease / (increase) in secured client loans	1,387	(774)
Decrease in debtors	756	30,273
(Decrease) in creditors	(1,907)	(25,004)
(Decrease) in bear positions	(308)	(334)
Decrease / (increase) in bull positions	3,395	(1,365)
Net cash inflow from operating activities	1,944	11,953

Notes To The Accounts

For the financial year ended 31 December 2001

24. Reconciliation Of Operating (Loss)/Profit To Operating Cash Flows (continued)

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

25. Reconciliation Of Net Cash Flow Movement To Movement In Net Funds

	2001 £'000	2000 £'000
(Decrease) / increase in cash in the period (See note 27)	(1,000)	40,052
Change in net funds	(1,000)	40,052
Net funds at 1 January	39,325	(727)
Net funds at 31 December	38,325	39,325

26. Gross Cash Flows

	2001 £'000	2000 £'000
Returns on investment and servicing of finance		
Interest received	1,904	777
Interest paid	(42)	(178)
Dividends paid to minority interests	-	(62)
	1,862	537
Capital expenditure		
Purchase of tangible fixed assets	(145)	(225)
Sale of tangible fixed assets	-	10
Purchase of other investments	-	(238)
Sale of other investments	163	2,762
Purchase of own shares	-	(1,000)
	18	1,309

Notes To The Accounts

For the financial year ended 31 December 2001

26. Gross Cash Flows (continued)

Acquisitions

Incidental acquisition costs	-	(244)
Cash acquired	-	519
Decrease in positions acquired	-	26,309
Repayment of loan	-	(4,188)
	<u>-</u>	<u>22,396</u>

Management of liquid resources

	2001 £'000	2000 £'000
Net cash transferred to short term deposit	-	-
Net cash transferred from short term deposit	-	18
	<u>-</u>	<u>18</u>

Financing

Repurchase of shares	-	(3,355)
Sale of shares in subsidiary	-	11,000
Professional fees for shares issued	-	(943)
	<u>-</u>	<u>6,702</u>

27. Analysis Of Changes In Net Funds

	As at 1 January 2001 £'000	Cashflows £'000	As at 31 December 2001 £'000
Cash at bank and in hand	42,629	(723)	41,906
Overdraft	(3,304)	(277)	(3,581)
	<u>39,325</u>	<u>(1,000)</u>	<u>38,325</u>