Shore Capital Group Limited

Interim Report 2011

Contents

Highlights

Financial Highlights*

- Revenue from operating businesses of £19.6m (2010 H1: £18.1m)
- Profit before tax of £4.3m; £3.9m including Spectrum (2010 H1: £4.7m)
- Earnings per share of 1.02p; 0.93p including Spectrum (2010 H1: 1.10p)
- Interim dividend per share of 0.25p (2010 H1: 0.25p)

* excluding the contribution from Spectrum and DBD

Operational Highlights

- Continuing strong performance of the ECM business despite challenging environment – 11 new corporate clients
- Asset management revenues stable reflecting closed-end nature of fund products
- Acquisition of controlling interest in Spectrum Investments Limited
- Balance sheet remains strong: gross cash balance at 30 June 2011 of £43.9m providing substantial capacity to make strategic acquisitions as opportunities arise

Chairman's Statement

"Our business has continued to demonstrate resilience, having delivered a strong operating performance in challenging market conditions. We have made progress on a number of fronts and are particularly excited about the acquisition of the controlling interest in Spectrum Investments, our German broadband investment.

Our balance sheet strength and liquidity should allow us to take advantage of other opportunities as they present themselves."

Introduction

I am pleased to report our interim results for the first six months of 2011. Despite continued stock market volatility and challenging market conditions, our diversified and well established business streams have enabled the Group to deliver a strong financial performance.

We are particularly excited to have completed the acquisition of a controlling stake in Spectrum Investments Limited ("Spectrum"), which has acquired a 58 per cent interest in DBD Deutsche Breitband Dienste GmbH ("DBD"). The investment in this German telecoms business builds upon our existing presence in Germany, where we manage a substantial property portfolio.

Financial Review

Table 1 gives an analysis of the results of the group on a like-for-like basis for the current and comparative periods, split between the results of the operating activities and movements in the value of balance sheet holdings. It is pro-forma as it excludes the income and expenditure relating to Spectrum and DBD. As a result of the acquisition structure used, the accounting rules require the revenue and costs of Spectrum and DBD to be consolidated in full even though we only have a net economic interest in DBD of just under 30 per cent (via our holding in Spectrum).

Table 1:
Analysis of the Pro-Forma Consolidated Income Statement (excluding Spectrum and DBD)

Six months ended 30 June	Operating Businesses 2011 £'000	Operating Businesses 2010 £'000	Balance sheet holdings 2011 £'000	Balance sheet holdings 2010 £'000	Total 2011 £'000	Total 2010 £'000
Revenue	19,553	18,143	62	65	19,615	18,208
Administrative expenditure	(15,096)	(13,352)	–	–	(15,096)	(13,352)
Operating profit	4,457	4,791	62	65	4,519	4,856
Interest income	94	120	–	–	94	120
Finance costs	(313)	(317)	–	–	(313)	(317)
Negative goodwill on acquisition of DBD	–	–	–	–	–	–
	(219)	(197)	–	–	(219)	(197)
Profit before taxation	4,238	4,594	62	65	4,300	4,659
Taxation	(1,191)	(1,306)	–	(116)	(1,191)	(1,422)
Profit/(loss) for the year after taxation	3,047	3,288	62	(51)	3,109	3,237
Attributable to:						
Equity holders of the parent	2,443	2,771	62	(51)	2,505	2,720
Minority interests	604	517	–	–	604	517
	3,047	3,288	62	(51)	3,109	3,237
Earnings per share						
Basic	0.99p	1.12p	0.03p	(0.02p)	1.02p	1.10p
Diluted	0.98p	1.08p	0.02p	(0.02p)	1.00p	1.06p

Table 2 takes the total from Table 1 and shows the effect of consolidating the income and expenditure relating to Spectrum and DBD since their acquisition.

We own an economic interest of 51% in Spectrum and accordingly the balance of the loss before tax is not attributable to our shareholders.

Table 2: Analysis of the Consolidated Income Statement (including Spectrum and DBD)

Six months ended 30 June	Total excluding Spectrum/DBD as per Table 1 2011 £'000	Spectrum/DBD 2011 £'000	Total 2011 £'000	Total* 2010 £'000
Revenue	19,615	824	20,439	18,208
Administrative expenditure	(15,096)	(1,314)	(16,410)	(13,352)
Operating profit/(loss)	4,519	(490)	4,029	4,856
Interest income	94	2	96	120
Finance costs	(313)	–	(313)	(317)
Negative goodwill on acquisition of DBD	–	49	49	–
	(219)	51	(168)	(197)
Profit/(loss) before taxation	4,300	(439)	3,861	4,659
Taxation	(1,191)	–	(1,191)	(1,422)
Profit/(loss) for the year after taxation	3,109	(439)	2,670	3,237
Attributable to:				
Equity holders of the parent	2,505	(222)	2,283	2,720
Minority interests	604	(217)	387	517
	3,109	(439)	2,670	3,237
Earnings per share				
Basic	1.02p	(0.09p)	0.93p	1.10p
Diluted	1.00p	(0.09p)	0.91p	1.06p

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

The Group excluding Spectrum/DBD

Operating revenue for the half-year increased 7.8 per cent to £19.55m (2010 H1: £18.14m).

Including net income from balance sheet holdings, total revenue for the group for the half-year was £19.62m (2010 H1: £18.21m).

Administrative expenses were £15.10m (2010 H1: £13.35m), an increase of 13.1 per cent, reflecting both the effects of a large credit in the prior year in respect of staff share options and expenses now being borne by the Group following the demerger of Puma Brandenburg Limited ("PBL"). As a consequence, the Group achieved an operating profit of £4.52m (2010 H1: £4.86m). Interest income was £94,000 (2010 H1: £120,000), whilst finance costs were £313,000 (2010 H1: £317,000), leading to a net finance cost of £219,000 (2010 H1: £197,000).

Profit before tax was £4.30m (2010 H1: £4.66m), generating earnings per share of 1.02p (2010 H1: 1.10p). The net margin before tax was 21.9 per cent (2010 H1: 25.6 per cent).

Revenue from Equity Capital Markets ("ECM") was £14.28m (2010 H1: £12.72m), with a net margin of 31.1 per cent (2010 H1: 27.1 per cent). Revenue from Asset Management alone was £4.76m (2010 H1: £4.70m) with a net margin of 22.9 per cent (2009 H1: 38.4 per cent). Our balance sheet holdings contributed a small gain of £0.06m (2010 H1: £0.01m). Staff costs, including incentive costs, were 42.0 per cent (2010 H1: 40.3 per cent) of revenue.

Liquidity

We have a medium term evergreen bank facility of £20m, of which £15m is committed and was drawn down at the period end. Separately, we also have access to a £20m working capital facility which was unutilised at the period end.

As at the balance sheet date, the gross cash balance was £43.9m (2010 H1: £41.8m). This demonstrates the Group's flexibility to undertake a range of transactions as opportunities arise in the near term.

Share Buybacks

During the six months under review, we bought in 1,823,549 shares at a total cost of £474,000, equating to an average price of 26.0 pence per share. In July we bought in a further 1,815,000 shares at a total cost of £472,000, equating to an average price of 26.0 pence per share.

Balance Sheet

Our balance sheet remains strong. Total equity was £74.7m at the half year end (2010 H1: £67.3m). Analysing our balance sheet, at the period end we held £5.2m of gilts and bonds, £1.8m net in quoted equities and £0.8m net in the Lily Partnership. After allowing for other Group borrowings of £15.0m, net cash was £28.9m. We held a further £14.4m in the various Puma Funds and £1.3m in other holdings, all of which were unquoted, and (on a gross basis, before allowing for non controlling interests) £4.8m of assets in Spectrum. The remainder of the balance sheet was £17.5m net, which includes £18.9m of net market debtors in our stockbroking subsidiary.

Net Asset Value per Share

Net Asset value per share at the end of the period was 26.5p (2010 H1: 25.5p).

Dividend

We declare an interim dividend of 0.25p per share (2010 H1: 0.25p), giving 3.7x earnings cover. The dividend is expected to be paid on Wednesday, 12 October 2011 to shareholders on the register as at Friday, 30 September 2011. In my last statement I wrote that the dividend policy would be reviewed by the Directors in light of the changing fiscal environment and we shall continue to review the policy.

Operating Review

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

Equity Capital Markets

Overview

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

The division performed strongly, achieving 12.2 per cent revenue growth in comparison to the same period in 2010. This growth was driven by a robust performance across each of the departments, including a significantly improved contribution from corporate finance and corporate broking. We benefit from the division's diverse income streams and are not heavily reliant on one source of revenue. In addition, having a strong balance sheet and being viewed as a strong and consistent counterparty by both our client base and market participants has been a strength in the prevailing market conditions.

We have continued to see strong interest for investor presentations hosted in our London, Liverpool and Edinburgh offices for our retained corporate clients as well as other listed companies, including a substantial number of FTSE 100 and mid cap companies. Our natural resources franchise, established in 2010, continues to make excellent progress having now secured its 10th corporate client in 10 months. The natural resources arena continues to be a active subsector of AIM and the Group's ability to provide access to funds has enabled our team to expand its market presence in a relatively short period.

Research and Sales

The environment for secondary commissions has remained challenging. During the first half the market has seen volumes across the UK market decline as fund managers continue to grapple with the combination of an uncertain economic outlook and the knock on effect from regulatory changes which have lessened trading activities at proprietary desks in particular.

In this challenging environment, our team did well to hold revenue at similar levels to the previous year. This is shown in the continued growth in direct payments we receive from institutional clients under commission sharing arrangements for our research and sales support to their fund managers. In particular, the strength of our franchise and the quality of our product were reflected in the Thomson Reuters 2011 Extel UK Small & Midcap Survey in which our analysts achieved top 5 analyst ratings in six sectors and we were recognised as 10th pan-European Brokerage Firm overall.

Market-making

Our market-making team performed especially well in the first quarter on the back of high trading volumes which then reverted to more regular levels in the second quarter where our performance remained resilient. We continued the strategy of operating with a relatively clean inventory position, which benefits us in times of high volatility and low volumes.

The performance shows the strength of our franchise in this area, dealing directly with the major retail brokers as a Retail Service Provider through a broad range of electronic links and with those institutions active in small cap. London Stock Exchange statistics show us as the second largest market-maker on AIM by volume of trades and the third largest on the London Stock Exchange by number of stocks covered.

Corporate Finance

The environment for mid and small cap equities remained very tough and IPOs continued to be off the agenda for virtually all types of company. Despite this, our corporate finance team completed two AIM admissions and five fundraisings including acting as sole bookrunner on a £26m placing and open offer for Aminex and as joint broker to a £17m placing for Ascent Resources. We also acted for Beale on a major acquisition of stores (a reverse takeover) and for OpSec Security Group on its takeover by Investcorp.

The team has also achieved success in growing the number of retained clients, adding 11 new clients in the period, including Cranswick, a FTSE 250 company.

Overall, there was a significantly improved contribution from corporate finance and corporate broking.

Alternative Assets and Investment Management

Overview

The revenue of our alternative asset class fund management business was essentially unchanged compared to 2010 H1. Overall fund management performance, discussed in more detail below, was in keeping with our absolute return philosophy of seeking to preserve cash when markets become difficult. We continue to believe that the asset management business is well-positioned to grow organically and by acquisition.

Fund performance

The following table summarises the performance of the various funds we run, both absolute and relative return, for the first six months of 2011 where applicable and since inception.

Returns from Absolute Return and Model Portfolio Products (unaudited) Performance in 2011 H1 and since Inception (net of management and performance fees)

Absolute Return Products	Inception Date	Asset type	Performance in 2011 %	IRR to Date % p.a.
Puma Absolute Return Fund	May 2003	Fund of hedge funds	(0.5)	5.7
Puma VCTs I & II [1]	April/May 2005	VCT	(2.3)	0.9/11.8 [3] pre/post tax
Puma VCTs III and IV [1]	April/May 2006	VCT	(0.7)	(0.4)/11.1 [3] pre/post tax
Puma VCT V	April/May 2008	VCT	0.1	2.4/14.7 [3] pre/post tax
Puma High Income VCT	April/May 2010	VCT	(0.4)	(1.1)/27.7 [3] pre/post tax
Puma Sphera	Dec 2006	Equity long/short	(6.3)	11.6
Puma Hotels plc [2]	July 2004	Hotels	n/a	12.6
St Peter Port Capital [2]	April 2007	Growth Capital	(0.9)	4.3

(1) Weighted composite of VCTs (2) Based on last published Net Asset Values
(3) Post tax returns include the effect of the tax relief gained upon initial investment

Model Portfolios	Inception Date	Asset type	Performance in 2011 %	IRR to Date % p.a.
Growth Portfolio	Feb 2002	Equities, bonds and unit trusts	(0.6)	5.6
Balanced Portfolio	Feb 2002	Equities, bonds and unit trusts	0.9	7.5
Multi-manager Growth Portfolio	July 2003	Unit trusts	1.0	11.4
Multi-manager Income Portfolio	July 2004	Unit trusts	3.6	6.5
AIM Inheritance Tax	July 2005	Equities	27.6	23.2

15 Year Track Record	Inception Date	Asset type	Performance in 2011 %	IRR to Date % p.a.
Composite of funds	May 1996	Alternative asset class funds and structured finance	n/a	14.3

Funds under Management

Total funds under management as at 30 June 2011 were £1.33bn, compared to £1.31bn at 31 December 2010. In US$ terms, this equates to $2.13 billion (31 December 2010: $2.06 billion).

Track Record

As previously, we have calculated the track record of our alternative asset class funds and structured finance since our first launch, Puma I, in 1996. Over this 15 year period, we calculate that the net return to investors from a composite of the vehicles was 14.3 per cent p.a.

Puma Venture Capital Trusts

We now manage seven Puma VCTs, having raised Puma VCT VII in the spring of 2011 with £13.2m of equity. Each has a focus on providing secured loans to well-run companies finding it hard to raise finance on attractive terms from banks. They are each limited life vehicles, aiming to distribute to their investors the initial capital and returns after five years.

In accordance with the plans set out in their original prospectus, the first two of our VCTs which were raised in 2005, are now being wound up. We have been successfully liquidating the assets and have so far returned 95p per share in cash to their investors (which relates to a net investment cost of 60p per share), with approximately 8p per share yet to be distributed, giving the highest total return of any limited life VCT raised in that year. Puma VCTs III and IV are a year away from the same stage and have also begun to return significant cash; they too are amongst the top of their peer group. Puma VCT V is the top performing limited life VCT of all those raised in 2008.

The continuing tight market in credit for companies since the financial crisis of 2008 has engendered a strong demand for this type of offering so we are pleased to have recently launched our eighth VCT for the current tax year and hope to capitalise on our excellent track record.

Puma Absolute Return Fund (“PARF”)

PARF maintained its defensive positioning during the first six months of the year, losing 0.55 per cent in what was a generally poor period for investment returns. This compares with a loss of 0.62 per cent for the BarclayHedge Fund of Funds index, the relevant benchmark.

Puma Sphera

Puma Sphera had a difficult start to the year, and was unable to avoid the weakness in domestic markets caused primarily by ongoing significant political instability in neighbouring countries. Whilst the Tel Aviv stock exchange lost 9 per cent, Puma Sphera lost just over 6 per cent, compared to a gain of 1.65 per cent for the Dow Jones Credit Suisse Hedge Fund index.

Even with this relatively brief period of underperformance, Puma Sphera remains far ahead of its peers, with an annualised return since inception of 16.7 per cent. This compares with an annualised return of 7 per cent for the above benchmark and 8.2 per cent for the Israeli stock market during the same period.

Private Client Investment Management

Shore Capital's track record for private client investment management remains strong. Our Balanced Portfolio has outperformed its benchmark by 21.3 per cent from launch in February 2002 to 30 June 2011. In the six months to 30 June 2011 it gained 0.9 per cent, underperforming its benchmark by 1.7 per cent. Over the period from February 2002 to 30 June 2011 the Growth Portfolio outperformed its benchmark by 2.5 per cent. In the six months it fell by 0.6 per cent. The performance of the Balanced and Growth portfolios have been calculated using the average of appropriate client portfolios for the six months to 30 June 2010 as the model portfolios previously used became unable to track the corporate bond holdings in which discretionary clients were invested.

Our "long only" range of products based on picking "best of breed" long only funds also performed well in relative terms. The growth orientated fund of funds portfolio has achieved 137.1 per cent growth since launch on 30 June 2003 to 30 June 2011 and out-performed its benchmark by 24.3 per cent. In the six months to 30 June 2011 it underperformed its benchmark by 1.8 per cent, gaining 1.0 per cent. The income-orientated fund of funds has achieved 54.9 per cent since launch at 30 June 2004 to 30 June 2011 but underperformed its benchmark by 2.7 per cent. In the six months it gained 3.6 per cent, outperforming its benchmark by 1.2 per cent.

St Peter Port Capital

St Peter Port Capital ("St Peter Port") was launched in April 2007 as a pre-IPO fund but has since widened its investment mandate to include providing bridging finance ahead of trade sales and other opportunistic investing in development capital situations. At its year end of 31 March 2011, it had investments in 45 investee companies and had a NAV per share of 120.8p, up from an initial 97.5p at launch.

As reported in our 2010 final results, St Peter Port held shares and warrants in HRT Participações em Petróleo S.A., a Brazilian oil and natural gas exploration company which completed an IPO in Brazil on 25 October 2010. St Peter Port has since sold virtually its entire holding including having exercised warrants in the company, resulting in an overall gain (from the original investment of US$5 million) of £20.7 million equating to a 7.5x multiple of net proceeds to the original investment.

Puma Brandenburg Limited

Following the de-merger on 26 March 2010, PBL is now a subsidiary of Puma Brandenburg Holdings Limited ("PBHL"), whose shares are listed on the Luxembourg Stock Exchange. Shore Capital continues to act as the property investment adviser to PBL.

PBHL reported results in July 2011 for the period from 2 February 2010 to 31 March 2011 (which included a short period prior to 26 March 2010 before it acquired its interest in PBL from Shore Capital Group). At the year end of 31 March 2011, independent valuers had valued PBL's investment portfolio at €467.5m with bank borrowings of €352.1m. Further, an option to extend the maturity of the senior debt on the Lidl portfolio has been agreed for a period of two years.

The company reported continued good results from active property management across both its residential and commercial portfolios. The sale of apartments at Mendelsohn Quartier progressed exceptionally well and vacancies at the housing estate at Sonnensiedlung have remained below 2%, representing a 90% reduction in vacancy rates since PBL obtained control of the estate in September 2006.

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

Puma Hotels

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

The property subject to the leases was professionally valued by Colliers Robert Barry as at 31 December 2010 at £455.6m, a 1 per cent reduction from the 2009 valuation, reflecting the difficult hotel sector but also the quality of the assets.

Balance Sheet Holdings

Our balance sheet holdings include positions in funds we have established and other medium term investments. As such, their value will be affected by overall market movements and by specific events affecting the individual investments. In the period under review these balance sheet investments generated a small gain of £62,000.

Investment in German Telecoms Business

We completed a new investment of €2.9m to take a controlling interest in Spectrum Investments Limited ("Spectrum"). Spectrum was formed in 2011 to acquire a 58 per cent interest in DBD Deutsche Breitband Dienste GmbH ("DBD"), a German telecoms business. We are backing a management team of Israeli entrepreneurs who co-founded Spectrum; other investors in the company include additional specialists in tele-communications. Spectrum plans to exploit Israeli-developed radio technology to broaden the use of the radio frequencies licensed. The aim is to provide services which would enable mobile operators to supply 4G data services to their customers more efficiently and reliably. A working demonstration of the technology has been established at DBD's headquarters in Heidelberg and the trials undertaken have been successful.

As anticipated at the time of the acquisition of DBD, operating expenses have exceeded revenues within DBD. Our share of these losses through our holding in Spectrum resulted in a dilution of the earnings per share of 0.09p/share for the period since completion on 13 April 2011. On acquisition of Spectrum's interest in DBD, €3m of new capital was injected into DBD to fund the projected negative cashflow of DBD until the implementation of the business plan results in new sources of revenue from business customers.

Current Trading and Prospects

Our business has continued to demonstrate resilience, having delivered a strong operating performance in challenging market conditions. We have made progress on a number of fronts and are particularly excited about the acquisition of the controlling interest in Spectrum Investments, our German broadband investment.

However, the sovereign debt crisis in the West has made the macroeconomic climate extremely uncertain. Until such time as the debt problem is addressed, there will continue to be little visibility of business prospects. In such an environment it is harder to make money and natural to be cautious. Whilst in 2008 governments were the back-stops to bail out the banks, there is no real back-stop for over indebted governments. The West needs either more people in work, to face a cut in standard of living through reduction of benefits, an erosion in the value of debt through inflation, or restructuring of government debt (i.e. default).

In the meantime we need to focus ever harder on our core operational niches. At the same time, opportunities may present themselves that would otherwise not be available. As our recent acquisition of control of Spectrum demonstrates, we are willing to take risk as long as the downside is well controlled and we look forward to executing the exciting business plan for that business.

Howard P Shore
Executive Chairman

19 September 2011

Independent review report to Shore Capital Group Limited ("the Group")

We have been engaged by the Group to review the condensed set of financial statements for the six months ended 30 June 2011 which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated cash flow statement and related notes 1 to 8. We have read the other information contained in the financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Group in accordance with guidance contained in ISRE 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review 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, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report as required by the AIM rules issued by the London Stock Exchange and the Bermuda Stock Exchange.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Group a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

Deloitte LLP
Chartered Accountants
Guernsey, Channel Islands

19 September 2011

Consolidated Income Statement

For the six months ended 30 June 2011 (unaudited)

	Notes	Six months ended 30 June 2011 Excluding Spectrum/ DBD £'000	Six months ended 30 June 2011 Spectrum/ DBD £'000	Six months ended 30 June 2011 Including Spectrum/ DBD £'000	Six months ended 30 June 2010 £'000	Year ended 31 December 2010 £'000
Revenue	3	**19,615**	**824**	**20,439**	18,208	35,483
Administrative expenditure		**(15,096)**	**(1,314)**	**(16,410)**	(13,352)	(26,755)
Operating profit/(loss)		**4,519**	**(490)**	**4,029**	4,856	8,728
Interest income		**94**	**2**	**96**	120	284
Finance costs		**(313)**	**–**	**(313)**	(317)	(643)
Negative goodwill on acquisition of DBD		**–**	**49**	**49**	–	–
Profit/(loss) before taxation	3	**4,300**	**(439)**	**3,861**	4,659	8,369
Taxation		**(1,191)**	**–**	**(1,191)**	(1,422)	(1,977)
Profit/(loss) for the period excluding profit from operations that have been demerged		**3,109**	**(439)**	**2,670**	3,237	6,392
Profit after tax from PBL	1	**–**	**–**	**–**	987	987
Profit/(loss) for the period		**3,109**	**(439)**	**2,670**	4,224	7,379
Attributable to:						
Equity holders of the parent		**2,505**	**(222)**	**2,283**	2,720	4,520
Non controlling interests		**604**	**(217)**	**387**	567	1,872
Equity holders of demerged assets	1	**–**	**–**	**–**	937	987
		3,109	**(439)**	**2,670**	4,224	7,379
Earnings per share						
Basic	4	**1.02p**	**(0.09p)**	**0.93p**	1.10p	1.83p
Diluted	4	**1.00p**	**(0.09p)**	**0.91p**	1.06p	1.77p

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2011 (unaudited)

	Six months ended 30 June 2011 Excluding Spectrum £'000	Six months ended 30 June 2011 Spectrum £'000	Six months ended 30 June 2011 £'000	Six months ended 30 June 2010 £'000	Year ended 31 December 2010 £'000
Profit/(loss) for the period	**3,109**	**(439)**	**2,670**	4,224	7,379
Gains on revaluation of available-for-sale investments taken to equity	–	–	–	–	385
Gains/(losses) on cash flow hedges	162	–	162	(264)	(490)
Taxation	(43)	–	(43)	74	9
	119	–	119	(190)	(481)
Exchange difference on translation of foreign operations	(37)	11	(26)	123	532
Other comprehensive income for the period, net of tax, from continuing operations	82	11	93	(67)	51
Demerged assets:					
Losses on cash flow hedges	–	–	–	(3,130)	(3,130)
Exchange difference on translation of foreign operations	–	–	–	457	457
Other comprehensive income for the period, net of tax, from demerged assets	–	–	–	(2,673)	(2,673)
Total comprehensive income for the period, net of tax	3,191	(428)	2,763	1,484	5,142
Attributable to:					
Equity holders of the parent	2,597	(221)	2,376	2,629	4,929
Non controlling interests	594	(207)	387	456	1,898
Equity holders of demerged assets	–	–	–	(1,601)	(1,685)
	3,191	(428)	2,763	1,484	5,142
Comprehensive earnings per share					
Basic	1.06p	(0.09p)	0.97p	1.10p	2.00p
Diluted	1.03p	(0.09p)	0.94p	1.06p	1.93p

Consolidated Statement of Financial Position

As at 30 June 2011 (unaudited)

	Notes	As at 30 June 2011 £'000	As at 30 June 2010 £'000	As at 31 December 2010 £'000
Non-current assets				
Goodwill		381	381	381
Intangible assets		4,764	–	–
Property, plant & equipment		12,352	13,615	12,710
Available-for-sale investments		10,540	10,026	11,167
Deferred tax asset		205	750	340
		28,242	24,772	24,598
Current assets				
Bull positions and other holdings designated at fair value		13,479	12,416	11,201
Trade and other receivables		59,796	69,631	57,760
Derivatives		–	173	–
Cash and cash equivalents		43,917	41,771	44,249
		117,192	123,991	113,210
Total assets	3	145,434	148,763	137,808
Current liabilities				
Bear positions		(1,326)	(1,712)	(1,343)
Trade and other payables		(41,856)	(47,584)	(38,508)
Derivatives		(794)	(982)	(806)
Tax liabilities		(1,032)	(4,532)	(1,443)
Borrowings		(331)	(355)	(339)
		(45,339)	(55,165)	(42,439)
Non-current liabilities				
Borrowings		(25,211)	(26,087)	(25,424)
Provision for liabilities and charges		(217)	(240)	(172)
		(25,428)	(26,327)	(25,596)
Total liabilities	3	(70,767)	(81,492)	(68,035)
Net Current Assets		71,853	68,826	70,771
Net Assets		74,667	67,271	69,773
Equity				
Capital and Reserves				
Called up share capital		–	–	–
Share premium account		27,368	27,368	27,368
Capital redemption reserve		–	–	–
Own shares		–	–	–
Other reserves		2,208	1,611	2,113
Retained earnings		34,703	33,867	34,484
Equity attributable to equity holders of the parent		64,279	62,846	63,965
Non controlling interests		10,388	4,425	5,808
Total equity		74,667	67,271	69,773

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011 (unaudited)

	Share capital £'000	Share Premium account £'000	Capital redemption reserve £'000	Own shares £'000	Other reserves £'000	Retained earnings £'000	Non Controlling interests £'000	Total £'000
At 1 January 2010	5,590	20,112	1,511	(9,070)	2,303	112,552	8,508	141,506
Retained profit for the period	–	–	–	–	–	2,720	517	3,237
Profit for the period from PBL	–	–	–	–	–	937	50	987
Credit in relation to share based payments	–	–	–	–	94	–	–	94
Foreign currency translation	–	–	–	–	–	60	63	123
Deferred tax charge recognised directly in equity	–	–	–	–	(657)	–	–	(657)
Valuation change on cash flow hedge	–	–	–	–	(152)	–	(38)	(190)
Equity dividends paid	–	–	–	–	–	(1,537)	–	(1,537)
Dividends paid to non controlling interests	–	–	–	–	–	–	(1,242)	(1,242)
Shares issued before the re-organisation in respect of options exercised	29	230	–	55	–	–	–	314
Repurchase/cancellation of own shares	(147)	–	147	–	–	(2,870)	–	(2,870)
Changes associated with the demerged assets:	–	–	–	–	–	–	–	–
Valuation change on cash flow hedges	–	–	–	–	(2,973)	–	(157)	(3,130)
Foreign currency translation	–	–	–	–	435	–	23	458
Share issued in subsidiaries to non controlling interests	–	–	–	–	–	–	251	251
Changes associated with the corporate re-organisation:	–	–	–	–	–	–	–	–
De-merger of PBL	–	–	–	–	2,561	(68,976)	(3,518)	(69,933)
Cancellation of own shares	–	–	–	9,015	–	(9,015)	–	–
Re-organisation of share capital (net of associated costs)	(5,472)	6,856	(1,658)	–	–	–	–	(274)
Shares issued after the re-organisation in respect of options exercised	–	170	–	–	–	–	–	170
Share/participations issued in subsidiaries to non controlling interests	–	–	–	–	–	–	64	64
Cancellation of share/participations in subsidiaries	–	–	–	–	–	(4)	(96)	(100)
At 30 June 2010	–	27,368	–	–	1,611	33,867	4,425	67,271

Consolidated Statement of Changes in Equity continued

For the six months ended 30 June 2011 (unaudited)

	Share capital £'000	Share Premium account £'000	Capital redemption reserve £'000	Own shares £'000	Other reserves £'000	Retained earnings £'000	Non Controlling interests £'000	Total £'000
At 30 June 2010	–	27,368	–	–	1,611	33,867	4,425	67,271
Retained profit for the period	–	–	–	–	–	1,800	1,355	3,155
Revaluation of available for sale investments	–	–	–	–	385	–	–	385
Credit in relation to share based payments	–	–	–	–	67	–	–	67
Foreign currency translation	–	–	–	–	–	(17)	(32)	(49)
Deferred tax charge recognised directly in equity	–	–	–	–	(74)	–	–	(74)
Valuation change on cash flow hedge	–	–	–	–	124	–	33	157
Equity dividends paid	–	–	–	–	–	(617)	–	(617)
Dividends paid to non controlling interests	–	–	–	–	–	–	(59)	(59)
Repurchase/cancellation of own shares	–	–	–	–	–	(549)	–	(549)
Share/participations issued in subsidiaries to non controlling interests	–	–	–	–	–	–	86	86
At 31 December 2010	–	27,368	–	–	2,113	34,484	5,808	69,773
Retained profit for the period	–	–	–	–	–	2,283	387	2,670
Foreign currency translation	–	–	–	–	–	(2)	(24)	(26)
Valuation change on cash flow hedge	–	–	–	–	95	–	24	119
Equity dividends paid	–	–	–	–	–	(1,528)	–	(1,528)
Dividends paid to non controlling interests	–	–	–	–	–	–	(1,525)	(1,525)
Repurchase/cancellation of own shares	–	–	–	–	–	(474)	–	(474)
Investment by Non-Controlling interests in DBD and Spectrum	–	–	–	–	–	–	5,664	5,664
Costs of acquisition recognised directly in reserves	–	–	–	–	–	(60)	(58)	(118)
Share/participations issued in subsidiaries to non controlling interests	–	–	–	–	–	–	112	112
At 30 June 2011	**–**	**27,368**	**–**	**–**	**2,208**	**34,703**	**10,388**	**74,667**

Consolidated Cash Flow Statement

For the six months ended 30 June 2011 (unaudited)

	Six months ended 30 June 2011 £'000	Six months ended 30 June 2010 £'000	Year ended 31 December 2010 £'000
Cash flows from operating activities			
Operating profit	**4,029**	4,856	8,728
Adjustments for:			
Depreciation charges	**435**	475	921
Share-based payment expense	**–**	94	161
Loss on available-for-sale investments	**148**	318	(224)
Loss on disposal of fixed assets	**27**		
Increase/(decrease) in provision for NIC on options	**45**	(489)	(557)
Operating cash flows before movement in working capital	**4,684**	5,254	9,029
Increase in trade and other receivables	**(2,036)**	(35,542)	(23,497)
Increase in trade and other payables	**3,498**	26,872	17,851
(Decrease)/increase in bear positions	**(17)**	(1,531)	(1,900)
(Increase)/decrease in bull positions	**(2,278)**	(1,420)	(205)
Cash generated/(utilised) by operations	**3,851**	(6,367)	1,278
Interest paid	**(313)**	(317)	(643)
Corporation tax paid	**(1,510)**	–	(3,385)
Net cash generated/(utilised) by operating activities	**2,028**	(6,684)	(2,750)
Cash flows from investing activities			
Purchases of fixed assets	**(392)**	(486)	(570)
Sale/(purchase) of available-for-sale investments	**479**	(238)	(451)
Proceeds on disposal of fixed assets	**–**	–	–
Purchase of shares issued by PBL and demerged	**–**	(4,749)	(4,749)
Acquisition of subsidiary net of cash acquired	**(1,314)**	–	–
Interest received	**96**	120	284
Net cash utilised by investing activities	**(1,131)**	(5,353)	(5,486)
Cash flows from financing activities			
Shares issued following exercise of options	**–**	484	484
Shares/participations issued in subsidiaries to minority interests	**2,579**	64	150
Repurchase of shares	**(474)**	(2,870)	(3,419)
Costs of acquisition of Spectrum recognised directly in reserves	**(118)**	(274)	(274)
Shares bought from non controlling interest in subsidiary	**–**	(100)	(100)
Decrease in borrowings	**–**	(178)	(339)
Dividends paid to non controlling interests	**(1,525)**	(1,242)	(1,301)
Dividends paid to Equity Holders	**(1,528)**	(1,537)	(2,154)
Net cash utilised by financing activities	**(1,066)**	(5,653)	(6,953)
Net (decrease)/increase in cash and cash equivalents during the period	**(169)**	(17,690)	(15,189)
Effects of exchange rate changes	**(163)**	59	36
Cash and cash equivalents at beginning of period	**44,249**	59,402	59,402
Cash and cash equivalents at end of period	**43,917**	41,771	44,249

Notes to the Interim Financial Report

For the six months ended 30 June 2011 (unaudited)

1. Financial information

Basis of preparation

The annual financial statements of Shore Capital Group Limited (the "Group") are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The condensed set of financial statements included in this interim financial report for the period ended 30 June 2011 has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union.

Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on pages 2 to 12, together with the financial position of the Group, its liquidity position and borrowing facilities. In addition, the principal risks and uncertainties of the Group are discussed in note 3 to this interim financial report.

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

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

Presentation of the financial statements

The Company was formed on 18 January 2010. On 26 March 2010 it acquired the entire share capital of Shore Capital Group plc. These results cover the six month period to 30 June 2011 and the comparative period incorporates the period for the new holding company following the corporate re-organisation to 30 June 2010, together with the earlier period during which Puma Brandenburg (PBL) was part of the Group prior to its being de-merged.

Significant accounting policies

The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as are applied in the Group's latest audited Annual Report and Accounts for the year ended 31 December 2010, except for the adoption of new policies, as follows:

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

1. Financial information continued

Business combinations continued

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognised.

Where a business combination is achieved in stages, the Group's previously-held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3(2008) are recognised at their fair value at the acquisition date.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

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

1. Financial information continued

Financial liabilities at FVTPL continued

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

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

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the income statement.

2. Principal risks and uncertainties

The Group's policies for managing the risks arising from its activities are set out in the last audited Annual Report and Accounts of the group that were issued on 31 March 2011. The Group's activities comprise equity market activities and investment in alternative assets and property, and its income is therefore subject to the level of general activity, sentiment and market conditions in each of the markets in which it operates.

3. Segmental information

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

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

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

3. Segmental information continued

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

6 months ended 30 June 2011

	Equity Capital Markets £'000	Asset Management/ Principal Finance £'000	Balance sheet holdings £'000	Central costs £'000	Spectrum £'000	Consolidated £'000
Revenue	14,278	5,275	62	–	824	20,439
Results						
Depreciation	63	348	–	24	–	435
Profit before tax	4,437	492	62	(691)	(439)	3,861
Assets	65,398	17,792	38,805	13,488	9,951	145,434
Liabilities	41,793	11,529	3,695	11,522	2,228	70,767

6 months ended 30 June 2010

	Equity Capital Markets £'000	Asset Management/ Principal Finance £'000	Balance sheet holdings £'000	Central costs £'000	Spectrum £'000	Consolidated £'000
Revenue	12,721	5,422	65	–	–	18,208
Results						
Depreciation	66	388	–	21	–	475
Profit before tax	3,444	1,360	65	(210)	–	4,659
Assets	73,504	24,579	36,617	14,063	–	148,763
Liabilities	53,561	15,221	706	12,004	–	81,492

Year ended 31 December 2010

	Equity Capital Markets £'000	Asset Management/ Principal Finance £'000	Balance sheet holdings £'000	Central costs £'000	Spectrum £'000	Consolidated £'000
Revenue	26,268	11,040	(1,825)	–	–	35,483
Results						
Depreciation	127	749	–	45	–	921
Profit before tax	7,632	3,058	(1,825)	(496)	–	8,369
Assets	63,395	19,143	38,734	16,536	–	137,808
Liabilities	40,480	12,610	3,755	11,190	–	68,035

Notes to the Interim Financial Report continued

For the six months ended 30 June 2011 (unaudited)

4. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following:

	Six months ended 30 June 2011	Six months ended 30 June 2010	Year ended 31 December 2010
Earnings (£)	**2,283,000**	2,720,000	4,520,000
Number of shares			
Basic			
Weighted average number of shares	**244,450,877**	248,093,357	246,919,948
Diluted			
Dilutive effect of share option schemes	**7,611,859**	9,031,267	7,950,636
	252,062,736	257,124,624	254,870,584
Earnings per share			
Basic	**0.93p**	1.10p	1.83p
Diluted	**0.91p**	1.06p	1.77p

5. Rates of dividends paid and proposed

	Six months ended 30 June 2011 £'000	Six months ended 30 June 2010 £'000	Year ended 31 December 2010 £'000
Amounts recognised as distributions to equity holders in the period:			
Final dividend for the year ended 31 December 2010 of 0.625p per share	**1,528**	–	–
Second interim dividend for the year ended 31 December 2009 of 0.625p per share	**–**	1,537	1,537
Interim dividend for the year ended 31 December 2010 of 0.25p per share	**–**	–	617
	1,528	1,537	2,154
Proposed interim dividend for the year ended 31 December 2011 of 0.25p per share	**604**		

6. Called up share capital

	Number of shares	£'000
Shore Capital Group plc – ordinary shares of 2p each		
At 1 January 2010	279,484,206	5,590
Shares issued in respect of options exercised	1,466,977	29
Shares cancelled from treasury	(28,369,252)	(567)
Shares repurchased and cancelled	(7,333,560)	(147)
Cancelled on reorganisation	(245,248,371)	(4,905)
	–	–

	Number of shares	£'000
Shore Capital Group Limited – ordinary shares of nil par value		
Issued by SCGL on reorganisation	245,248,371	–
Shares issued in respect of options exercised	1,400,000	–
At 30 June 2010	**246,648,371**	**–**
Shares repurchased and cancelled	(2,197,494)	–
At 31 December 2010	**244,450,877**	**–**
Shares repurchased and cancelled	(1,823,549)	–
At 30 June 2011	**242,627,328**	**–**

	Number of shares	£'000
Shore Capital Group plc		
Own shares (held in treasury)		
At 1 January 2010	28,493,204	9,070
Shares sold in the period	(123,952)	(55)
Shares cancelled in the period	(28,369,252)	(9,015)
	–	–

7. Acquisition of subsidiary

On 10 March 2011 the Group subscribed for 51 per cent of the share capital of Spectrum Investments Limited ("Spectrum") a newly incorporated company. On 13 April 2011 Spectrum completed the purchase of 58.35 per cent of DBD Deutsche Breitband Dienste GmbH ("DBD"), a German telecoms business. This was achieved through both the acquisition of existing shares and a subscription for new shares in DBD. Spectrum plans to exploit Israeli-developed radio technology to expand the use of the use of the radio frequencies licensed. The aim is to provide services which would enable mobile operators to supply 4G data services to their customers more efficiently and reliably.

The Group has elected to measure the non controlling interests in both Spectrum and DBD at their fair value.

7. Acquisition of subsidiary continued

Recognised amounts of assets acquired and liabilities assumed:

i. Spectrum

As a newly incorporated company there were no prior assets or liabilities when Shore Capital subscribed for shares of Spectrum. The company's only asset was the cash subscribed and accordingly there was no goodwill. The fair value of the non controlling interests in Spectrum has been recognised as their share of the monies subscribed into Spectrum.

ii. DBD

	Book value (£'000)	Fair value (£'000)
Tangible and intangible fixed assets	20,332	4,670
Other debtors	1,592	1,592
Cash	3,013	3,013
Deferred taxes and prepaid expenses	434	434
Accrued liabilities	(1,442)	(1,442)
Short term liabilities	(956)	(956)
Long term liabilities	(48,227)	(496)
Total identifiable assets	**(25,254)**	**6,815**
Less share of assets acquired attributable to Non Controlling interests		(2,839)
		3,976
Goodwill		(49)
Total consideration		**3,927**
Net cash outflow arising on acquisition:		
Consideration paid		3,927
Less: cash and cash equivalent balances acquired		(2,657)
Net cash outflow		**1,270**

The tangible fixed assets represent equipment currently installed and available for new customers, and the intangible fixed assets represent the spectrum licences held by DBD. Their fair value was £4,670,000 at the acquisition date.

The carrying value of the current assets approximated their fair value as they are all realisable, and carrying value of the current liabilities approximated their fair value as they are all payable.

The long term liabilities represent loans to the company from its shareholders. These obligations are only repayable to the extent that DBD has surplus net assets. The fair value that has been determined using a discounted cashflow projection. Their fair value was £496,000 at the acquisition date.

7. Acquisition of subsidiary continued

The fair value of the non controlling interests in DBD has been recognised as their share of the fair valued assets and liabilities at the acquisition date (as above) and their share of the results since acquisition.

In line with the anticipated business plan, during the period Spectrum and DBD combined have contributed revenues of £824,000 and a loss of £439,000 to the results of the Group.

Goodwill

The negative goodwill arising on acquisition of £49,000 comprises the value of the expected benefit of owning the rights to the spectrum held by DBD, once the spectrum has been expanded using Israeli-developed radio technology.

8. Subsequent events

Buyback of shares

During the period from 1 July 2011 to the date of announcing these interim results, the Company repurchased 1,815,000 ordinary shares, at a total cost of £472,000, equating to an average price of 26.0 pence per share.

Dividend

The Company has proposed an interim dividend of 0.25p per share (see note 5).

Further copies of this report are available on the Company's website at www.shorecap.gg

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