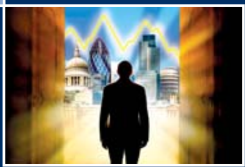
# INTERIM REPORT 2008



SHORE CAPITAL GROUP PLC

### Howard Shore, Executive Chairman of Shore Capital Group, said:

"As a house, we see ourselves as well-placed to exploit opportunities arising from the current bear market. Our income streams are diverse, our balance sheet is strong and liquid and our cost structure is flexible. At the same time we are able selectively to add high quality new recruits to strengthen the platform further.

"In the short term, we expect a continued growth in asset management income, both as a result of our extra responsibility in relation to Puma Hotels but also because the deployment of funds in other vehicles is growing."

## Contents

# Highlights

| Six months ended 30 June | 2008 £m | 2007 £m | 2006* £m | 2007–2008 Change % |
|---|---|---|---|---|
| Revenue | **13.16** | 25.47 | 20.50 | -48.3 |
| Profit before Tax | **2.02** | 12.11 | 9.42 | -83.3 |
| Earnings per share (pence) | **0.57** | 2.51 | 2.14 | -77.3 |
| Interim dividend per share (pence) | **0.25** | 0.55 | 0.50 | -54.5 |

*2006 added for illustrative purposes

- Operated profitably despite challenging conditions, revenue and operating profit virtually unchanged on 2007 H2
- Assumed entire responsibility for the investment management of Puma Hotels (formerly Dawnay Shore Hotels), adding significantly to future fund management income. Substantial construction programme for 20 hotel estate planned
- Fund-raising of up to US$500m for Puma Opportunities Fund now underway
- US$2.8bn under management (2007 H2: US$2.8bn), underlying fund performance good and prospects strong
- Research commission and corporate retainer income both grew, showing franchise strength
- Strong balance sheet: cash balance (28 August 2008) of £33.5m provides flexibility

# Chairman's Statement

I am pleased to report our interim results for the first six months of 2008. Despite unusually challenging market conditions, our business remains in good shape: we operated profitably for the period, albeit at a level much reduced from the (pre credit crunch) first six months of 2007. Our balance sheet remains strong and liquid. The diversity of our income streams has shown its value as has the flexibility of our cost structure. Fund management income continued to grow whilst in ECM we have been able to recruit well from the larger investment banks.

Following the period end, Shore Capital Limited assumed full responsibility for the investment management of Dawnay Shore Hotels plc (now renamed Puma Hotels plc) which will add significantly to our fund management income.

## Financial Review

Revenue for the half-year was £13.16m (2007 H1: £25.47m). This represented a 1.5 per cent decrease on the second half of 2007 and a 48.3 per cent decrease on the first half of 2007.

Administrative expenses were £11.24m (2007 H1: £13.59m), a decrease of 17.3 per cent. As a result, the Group achieved an operating profit of £1.92m (2007 H1: £11.88m), which was down 2.0 per cent on the second half of 2007.

In recent months we have maintained high levels of liquidity, leading to interest income increasing to £894,000 (2007 H1: £564,000). Finance costs have also risen to £790,000 (2007 H1: £330,000) as a result of additional drawings on our facilities.

Profit before tax was £2.02m (2007 H1: £12.11m), generating earnings per share of 0.57p (2007 H1: 2.51p), a decrease of 77.3 per cent. The net margin before tax was 15.4 per cent (2007 H1: 47.6 per cent).

Revenue from ECM was £10.01m (2007 H1: £16.08m), with a net margin of 27.0 per cent (2007 H1: 36.2 per cent). Revenue from asset management and principal finance/ own balance sheet was £3.15m (2007 H1: £9.39m). Asset management income grew, but there was a negative contribution from our own balance sheet of £1.89m. Staff costs, including incentive costs, were 36.8 per cent (2007 H1: 41.0 per cent) of revenue.

### Liquidity

We have agreed to extend our medium term evergreen bank facility of £10m so that it retains a minimum initial term of 3 years and a minimum 2 year notice period throughout its life. Our bankers have indicated their willingness to increase this to £20m, of which £15m will be committed.

As at the balance sheet date available liquidity was £35.9m (2007 H1: £10.0m), comprising £25.9m of cash and £10.0m of commercial paper. Following share buybacks of a further £5.2m in July, this was £33.5m as at 28 August 2008. 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 continued the programme of buy-backs begun in December 2007. In the six months to end June, we bought in 16,495,308 shares at a cost of £5.55m, an average price of 33.7 pence. Buy-ins continued in July under a pre-set mandate given to our brokers for the closed period (in accordance with Listing Rules) and, as a result, in the current year to date we have acquired a total of 36,095,308 shares at an average price of 29.9 pence, costing £10.78m. These have reduced our shares in issue by 11.9 per cent.

## Balance Sheet

Our balance sheet remains strong. Total equity was £77.1m at the half year end (2007 H1: £84.1m), the reduction reflecting that in the 12 months to 30 June 2008 the Group had bought back 19.5m of its own shares for a cost of £6.75m. Analysing our balance sheet, at the period end we held liquidity of £35.9m, comprising £25.9m of cash and £10.0m of commercial paper. Debt totalled £28.7m, comprising £9.5m of short term overdraft in our stockbroking subsidiary (which has since been repaid), £9.2m being the 10 year loan relating to the purchase of fixed assets for rental (see below) and £10.0m under the 3 year evergreen facility. Of the other larger items on our balance sheet, we held £11.6m of fixed assets, £7.5m net was held in quoted securities and £29.7m in other liquid funds and in various Puma Funds. The rest of the balance sheet, £21.1m, mainly comprised net market debtors in our stockbroking subsidiary, largely due from the London Clearing House.

## Return on Capital Employed

In the light of difficult market conditions, the return before tax on total capital employed was 2.5 per cent for the half year period, which is the equivalent of 5.0 per cent annualised (2007 H1: 15.5 per cent, 2007 as a whole: 18.3 per cent).

## Dividend

We declare an interim dividend of 0.25p per share, giving 2.28x earnings cover. The dividend is expected to be paid on Wednesday, 24 September 2008 to shareholders on the register as at Friday, 12 September 2008.

# Chairman's Statement continued

## 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 and professional clients, market-making in AIM and small cap stocks and corporate finance for mid and small cap companies. Each of these three elements of the business was affected by the difficult conditions in the stock market during the first half of the year. Institutional secondary stockbroking held up relatively well, whilst primary business was much reduced from the first half of 2007. However, it was not much lower than in the second half of 2007 and retainer income from corporates continued to grow. Market-making was the worst affected, but continued to remain profitable despite very difficult conditions in the small cap sector.

### Research and Sales

Institutional sales and research activity achieved a good performance in secondary business. It is particularly pleasing to see that the quality of our research is recognised by leading institutions, reflected in the continued strong growth in the income from commission awarded directly for research as a result of internal votes within the relevant fund manager. Consequently, we remain a net beneficiary of unbundling.

We have continued to expand our sales team to capitalise on the quality of our research product and order flow and have made some excellent hires from some of the bulge bracket banks. Our team of analysts research about 240 stocks across a broad range of sectors within consumer related industries, technology, financial services, property and construction, oil and gas.

### Market-making

Market-making kept its head above water, benefiting from its strong franchise and the broad range of electronic links we have installed to enable us to deal directly with major retail brokers as a Retail Services Provider.

We currently cover some 1,200 stocks and maintain strong relationships with the major retail houses which are our main customers. Our market-making division also benefits from the more active involvement of fund managers in the day-to-day trading of AIM stocks and we are therefore able to use our extensive institutional contacts to add to and complement the business we transact.

Statistics from the London Stock Exchange show that by number of stocks covered we continue to be the second largest market-maker on AIM and the third largest on the London Stock Exchange as a whole.

We expect some of our weaker competitors to reduce capacity or withdraw altogether from small cap market-making whilst the bear market conditions persist. We are maintaining a tight control on inventory and seeking to make money even in these tough times by concentrating upon providing an excellent service to the retail broking community.

### Corporate Finance

Corporate finance transaction activity was, unsurprisingly, depressed in this period. We undertook two flotations, the first was Japanese Leisure Hotels which we brought to AIM. The second was Da Vinci Capital Management, which we took onto the new Specialist Funds Market ("SFM") of the London Stock Exchange in the first ever admission to the SFM. We also sponsored Phaunos Timber moving to the Official List from AIM and concluding a further $33m placing. During the period we also conducted a number of secondary placings and other transactional work.

We continue to gain larger clients and our retainer income was 27.7 per cent higher than in 2007 H1. We have 51 retained clients at present, a slightly reduced number from earlier in the year (55), reflecting the fact that several of our smaller clients decided to de-list from AIM.

Although market conditions remain difficult, we currently have an improved pipeline of deals we are working on which have good prospects of being completed. Some are public company takeovers, a likely growth activity given the dramatic decline in the valuations of small caps: on 28 August 2008 it was announced that we are acting as stockbroker for Liverpool Victoria Friendly Society on its offer for Highway Insurance Group Plc. We therefore expect a better second half from this part of our business.

## Alternative Assets and Investment Management

### Overview

Our alternative asset class fund management business is in good shape, with continuing expansion of our product portfolio and strong prospects for further growth in fee income both from this and from organic developments.

The most significant development for this division occurred after the end of

# Chairman's Statement continued

the period in Puma Hotels plc. The investment management of Puma Hotels plc (formerly Dawnay Shore Hotels plc) is now wholly by Shore Capital Limited whereas hitherto our share of the total investment management fees was only 30 per cent of the total. This change in the investment management arrangements, which came into effect on 24 July 2008, will add significantly to our income from fund management.

As described below, our plans for 2008 include the imminent launch of Puma Opportunities Fund, for which we seek to raise up to US$500m. The structure and detailed mandate of the Fund is now essentially determined and we have issued the private placement memorandum to the extensive list of potential investors presented to by the team over the last few months.

The table below summarises the performance of the various funds we run, both absolute and relative return, for the first six months of 2008 where applicable and since inception. The figures shown for Puma Hotels plc are based on the independent property valuation prepared for that company's annual results and issued on 17 March 2008

## Funds under Management

Total funds under management as at the end of July 2008 were £1.43bn, equivalent at that date to US$2.84 billion, in line with the figure at 31 August 2007 of US$2.86bn (£1.43bn). Funds under management are expected to grow with the launch of Puma Opportunities Fund LP and as Puma Brandenburg makes further acquisitions.

## Puma Brandenburg

Puma Brandenburg Limited ("PBL"), which invests in German real estate, was established in March 2006 and is advised by a subsidiary of Shore Capital, Puma Property Advisors Limited.

PBL holds euro assets and reports its results in euros. On this basis, it reported in its final results on 23 June 2008 that the value of its portfolio in its interim report (as at 31 March 2008) was €1.54/share, which equated at that time to £1.23/share. The company's strategy focuses on active management and capital appreciation through improving rents and reducing vacancies, rather than simply relying on yield compression. The company reported good performance in these areas.

## Returns from Absolute Return and Model Portfolio Products
## Performance in 2008 H1 and since Inception

| | Inception Date | Asset Type | Performance in 2008 H1 % | IRR to Date % p.a. |
|---|---|---|---|---|
| **Absolute Return Products** | | | | |
| Puma Absolute Return Fund | May 2003 | Fund of hedge funds | 0.1 | 7.2 |
| Puma VCTs I/II [(1)] | Apr/May 2005 | VCT | (2.1) | 20.5 |
| Puma VCTs III/IV [(1)] | Mar/Apr 2006 | VCT | (0.5) | 24.5 |
| Puma Sphera | Dec 2006 | Long/short equity | (5.5) | 10.4 |
| Puma Hotels [(2)] | July 2004 | Hotels | Not available | 32.3 |
| Puma Brandenburg [(2)] | March 2006 | German real estate | 5.4 | 11.1 |
| St Peter Port Capital | April 2007 | Growth capital | 5.0 | 4.1 |

[(1)] Weighted composite of two VCTs and includes 40 per cent income tax relief [(2)] Based on March 2008 valuation

| | Inception Date | Asset Type | Performance in 2008 H1 % | IRR to Date % p.a. |
|---|---|---|---|---|
| **Model Portfolios** | | | | |
| Growth Portfolio | Feb 2002 | Equities, bonds and unit trusts | (7.8) | 5.1 |
| Balanced Portfolio | Feb 2002 | Equities, bonds and unit trusts | (7.0) | 6.9 |
| Multi-manager Growth Portfolio | July 2003 | Unit trusts | (7.8) | 13.8 |
| Multi-manager Income Portfolio | July 2004 | Unit trusts | (10.8) | 7.6 |
| AIM IHT portfolio | Sept 2005 | Equity | (0.3) | 11.3 |
| **12 Year Track Record** | | | | |
| Composite of funds | May 1996 | Alternative asset class funds and structured finance | Not applicable | 23.1 |

# Chairman's Statement continued

As at 31 March 2008, PBL had acquired a mixed portfolio valued at €681m, comprising some 430,000m$^2$ of residential, office and retail space, located in Berlin, Frankfurt and variously throughout Germany, mostly in the West.

PBL has assembled a portfolio of good quality assets at attractive prices, but retains considerable capacity (in the region of €500m including leverage) for further purchases. The market turbulence gives PBL, with its strong relationships with banks, an important competitive advantage in today's markets where fewer people are able to secure financing.

## Puma Hotels

Puma Hotels was established in July 2004 as a venture to acquire and manage UK four star hotels. It began by buying a portfolio of 13 hotels which it expanded to 20. In August 2007 it transferred its business and leased its properties on a 45 year lease to Barceló Group. This lease provides for a pre-set rental growth over the first four years which is inflation-indexed thereafter and can also increase if hotel EBITDA performs well.

It was announced on 17 March 2008 that Puma Hotels portfolio (excluding land held for non-hotel development) was professionally re-valued at £527m. This valuation is on the basis of the current room capacity of the hotels.

Regrettably, our partners in the management of this vehicle have had financial difficulties which led them, amongst other things, to appoint administrators to various property management companies in their group. The hotel vehicle itself is stand-alone with entirely independent financing and was therefore unaffected. However, the uncertainty regarding investment management arrangements for the vehicle was potentially damaging and had to be addressed. Consequently, we were appointed to take over the management of the vehicle in its entirety and its shareholders voted to change the name to Puma Hotels plc. Howard Shore has become the chairman and Jonathan Paisner a director, to serve alongside its Finance Director Peter Procopis. Mike Jourdain who was formerly involved in the management vehicle at Dawnay, Day, has also joined us to work with Peter and our property management team on the day-to-day management of Puma Hotels. The transfer of management has been very smooth.

In the past Puma Hotels has successfully exploited the potential for gains in value through developing the portfolio by adding extra rooms, conference and other facilities. We expect this programme to continue: at present, it has plans for approximately 800 rooms (over 20 per cent of the current estate) of which 363 rooms have already received planning consent. There are also schemes for 2,500m$^2$ of additional meeting rooms and upgrades for several leisure clubs. The lease agreement provides a formula for these improvements to be added to Puma Hotels' rental income. The economics of adding these rooms is highly attractive. The value of the development potential of the portfolio is not typically fully recognised in a professional valuation and we therefore believe that fulfilling the programme will add significantly to net asset value. We also believe that the inflation-indexation in the leases makes the portfolio's value more resilient in a bear market and will also give rise to significant extra value once the credit markets improve.

### Puma Absolute Return Fund ("PARF")

PARF gained 0.1 per cent in the six months to 30 June 2008, showing its defensive qualities at a time of falling markets for equities and other asset classes. We have focused the fund on equity long short managers whom our team believe have the ability and temperament to make returns in a bear market. The fund has an IRR since launch of 7.2 per cent p.a., achieved with volatility of only 5.6 per cent p.a. Total return over 5 years since launch in April 2003 is 43.2 per cent in sterling terms.

### Puma Sphera

After a spectacularly good launch year in 2007, in which Sphera gained 22.1 per cent, 2008 has to date been much tougher for the fund. In the period to end June 2008 it has lost 5.5 per cent, bringing its IRR since inception down to 10.4 per cent p.a. As a result, the fund has not yet contributed any performance fees in 2008.

Sphera has had to cope with large declines in the value of many Israeli companies quoted on NASDAQ and a retrenchment of the Israeli TASE Index (down 14.4 per cent). These movements have occurred despite the continuing strong performance of the Israeli economy. The manager has concentrated the portfolio upon value stocks with strong balance sheets and good fundamentals whilst taking short positions in more cyclical stocks with weaker market positions or deteriorating businesses. The fund is also seeking short term investment opportunities arising from the downturn. The manager has a proven medium term track record and we look forward to developing its funds under management.

# Chairman's Statement continued

## Private Client Investment Management

Against the backdrop of very difficult stock markets, unsurprisingly our long only equity-based portfolios for clients registered declines. Nonetheless, our track record for private client investment management remains strong. The balanced portfolio has outperformed its benchmark by 14.4 per cent from launch in February 2002 to 30 June 2008, but declined 7.0 per cent in absolute terms in 2008 H1. Over the same 77 months to 30 June 2008 the growth portfolio also outperformed its benchmark by 26.4 per cent, but lost 7.8 per cent in absolute terms in 2008 H1.

Our "long only" range of products based on picking "best of breed" long only funds continued to out perform. The growth orientated fund of funds has achieved 91.3 per cent growth since launch at 30 June 2003 to 30 June 2008 and out-performed its benchmark by 32.0 per cent. The newer income-orientated fund of funds has achieved 33.9 per cent since launch at 30 June 2004 to 30 June 2008 and out-performed its benchmark by 2.4 per cent.

## Asset Rental

As disclosed in our 2007 Report and Accounts, we have formed a new partnership, the Lily Partnership ("Lily"), which is focused on generating activity in the asset rental market. Lily has acquired a Bombardier Challenger 300 commercial jet for the private charter market. This is being managed by a specialist aviation company which is tasked with maximising chartering income.

The total cost of the asset was £10.22m. Because the jet is a new, highly fuel-efficient model, it is in strong demand and its current second-hand value is likely to be significantly more than Lily's acquisition cost as there is a very long waiting list for this model. As well as its primary role of generating charter income, the jet will also be used where appropriate by the Group to benefit its own activities in Europe. Charter income has been strong in its first few months of full operation.

The acquisition was funded as to 90 per cent by a 10 year US dollar bank loan and 10 per cent by Lily's equity. The interest rates have been fixed for five years at 5.35 per cent. The Group subscribed 80 per cent of the equity of the partnership (and assumed 80 per cent of the debt liability) and the balance of 20 per cent was subscribed by Howard Shore on the same terms.

We bought US$10m to cover our exposure to the loan repayment at a rate of US$2.01:£1 in addition to our equity investment of US$1.6m acquired at US$1.97:£1. As a result, the recent sharp fall in sterling against the dollar will have increased the value of the dollar asset without a matching increase in the loan liability. The Group should also be able to benefit from accelerated capital allowances which allow the venture to depreciate the asset at 15 per cent p.a. for tax purposes.

### Puma Venture Capital Trusts

In 2008 we launched a new Puma VCT targeting the investment opportunities arising from the credit crunch. This new fund joins our other four in providing secured loans to well-run companies finding it hard to raise finance on attractive terms from banks hit hard by the current credit turmoil. We seek to provide mezzanine and senior debt to well-run companies, both as qualifying investments and as part of the non-qualifying portfolio, in structures seeking to limit down-side risk. In total we now manage about £65m in these vehicles. The earlier VCTs have provided an average post tax return since launch of 20.0 and 24.1 per cent p.a. since launch. This has been achieved by focussing on qualifying investments with a lower risk profile and secured finance of the type described above.

### St Peter Port Capital

St Peter Port Capital (“St Peter Port”) was launched in April 2007 with £75m from institutional and high net worth investors. The fund’s mandate is to invest in companies which the managers consider have a realistic prospect of achieving an initial public offering (“IPO”) or other exit event (such as a trade sale) within a year or so of the investment being made.

Since inception the company has announced 34 investments, committing £57.8m to pre-IPO opportunities, a substantial proportion of which intend to list in London but many of which are focused on other stock markets. Over the first year, St Peter Port has weighted its investments principally towards three sectors: oil and gas exploration and production; mining and resources and renewable energy/clean technology. This focus reflects two factors: the thrust of pre-IPO opportunities identified by the Investment Manager from introducers in the investment industry; and the Investment Manager’s perception of what kinds of company could be expected to make it to a successful IPO when sentiment was adverse and becoming progressively more adverse.

This strategy has begun to bear fruit. The NAV (as at 31 March 2008) shown in the final results was 102.5 pence, a gain of 5.1 per cent since flotation. As at 9 July 2008, the company had realised more than £11m in cash from sales of pre-IPO investments, generating a return on investment cost of 56 per cent. The company also reported that

# Chairman's Statement continued

there were a considerable number of other pre-IPO investments in the portfolio where liquidity events at significant premium were expected in the second half of 2008.

## 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 12 year period, we calculate that the net return to investors from a composite of the vehicles was 23.1 per cent p.a.

## Puma Opportunities Fund

We have completed the private placement memorandum ("PPM") for a European opportunities fund, for which we are seeking to raise up to US$500m. The issue of the PPM reflects the settling of the structure and detailed mandate of the fund. The marketing is now beginning a new phase where we seek commitments from the large number of potential investors to whom the team has already presented over the last few months. Lehman Brothers have pre-committed US$25m (or, if less, 12.5 per cent of total commitments).

The intention is to provide mezzanine finance to entrepreneurs to take advantage of undervalued assets in the real estate market and will also itself buy assets on an opportunistic basis from distressed sellers. The fund's initial focus will be the major continental markets, primarily Germany and France and to a lesser extent the Benelux countries and Switzerland.

Shore Capital Limited will manage the fund. Ralf Nöcker was recruited from Bear Stearns to run the team. Lord Sterling, Executive Chairman of P&O Group from 1983 to 2005 and one of the UK's leading industrialists, will chair the advisory board of the Fund.

## Balance Sheet Holdings

Our model when we establish new funds is to seed each fund with the Group's own cash, investing on the same terms as other investors. Each fund is structured to provide management fee income and carried interest subject to performance. This model has served well and generated good and growing returns over the medium term.

Puma Brandenburg's share price fall to 77 pence at the end of June, notwithstanding the net asset value per share being £1.23, contributed a small loss to our overall results, whilst St Peter Port was trading at 70.5 pence (against an NAV of 102.5 pence). Under our accounting policy we mark both holdings to market and as a consequence reduced their carrying value. Together with other movements, the effect was that holdings in our balance sheet (and associated carried interest) contributed a loss of £1.89m to our overall results. One of our principal risks and uncertainties is that there may be further “mark to market” adjustments at the end of the period depending upon asset values and market sentiment.

We know these particular assets from direct management experience and are confident about their performance in the medium term. We have no plans to exit either of these holdings in the short term and believe these values will recover in the medium term.

## Current Trading and Prospects

As we reported in March, market conditions in the first half of 2008 were even more challenging than the second half of 2007 and we do not expect any early respite from the bear market mood which affects all aspects of our business. However, it is our experience that, a year into a bear market, some kinds of activity start to pick up: market participants have assimilated the initial shock of changed conditions, values have adjusted but relative anomalies persist and begin to attract attention. This stimulates opportunistic transactions.

As a house, we see ourselves well-placed to exploit such opportunities. Our income streams are diverse, our balance sheet is strong and liquid and our cost structure is flexible. At the same time we are able selectively to add high quality new recruits to strengthen the platform further.

In the short term, we expect a continued growth in asset management income, both as a result of extra responsibility in relation to Puma Hotels but also because the deployment of funds in other vehicles is growing.

Our strong balance sheet and liquidity makes us well-placed to take advantage of challenging market conditions. We remain cautious in our approach, but ready to exploit significant opportunities if we see them.

**Howard P Shore**
Executive Chairman

29 August 2008

# Responsibility Statement

We confirm that to the best of our knowledge:

(a) the condensed set of financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting";

(b) the interim management report (included within the Chairman's Statement) includes a fair view of the information required by DTR 4.2.7 R (indication of important events during the first six months and description of principal risks for the remaining six months of the year);

(c) the interim management report (included within the Chairman's Statement) includes a fair view of the information required by DTR 4.2.8 R (disclosures of related parties' transactions and changes therein); and

(d) the directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

By order of the Board
**J S Paisner**
Secretary

29 August 2008

# Independent Review Report to Shore Capital Group plc

## Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2008 which comprises the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and related notes 1 to 9. We have read the other information contained in the half-yearly 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 company in accordance with International Standard on Review Engagements 2410 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 them 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 review 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 in accordance with the Disclosure and Transparency Rules of the United Kingdoms' Financial Services Authority.

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 Company 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 inquiries, 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 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

**Deloitte & Touche LLP**
Chartered Accountants
London, United Kingdom

29 August 2008

# Condensed Consolidated Income Statement

For the six months ended 30 June 2008 (unaudited)

| | Notes | **Six months ended 30 June 2008 £'000** | Six months ended 30 June 2007 £'000 | Year ended 31 December 2007 £'000 |
|---|---|---|---|---|
| **Revenue** | 4 | **13,161** | 25,467 | 38,824 |
| Administrative expenditure | | **(11,243)** | (13,588) | (24,985) |
| **Operating profit** | | **1,918** | 11,879 | 13,839 |
| Interest income | | **894** | 564 | 1,187 |
| Finance costs | | **(790)** | (330) | (765) |
| | | **104** | 234 | 422 |
| **Profit before taxation** | 4 | **2,022** | 12,113 | 14,261 |
| Taxation | 5 | **21** | (3,625) | (3,231) |
| **Profit for the period** | | **2,043** | 8,488 | 11,030 |
| Attributable to: | | | | |
| Equity holders of the parent | | **1,679** | 7,581 | 8,799 |
| Minority interest | | **364** | 907 | 2,231 |
| | | **2,043** | 8,488 | 11,030 |
| **Earnings per share** | | | | |
| Basic | 6 | **0.57p** | 2.51p | 2.91p |
| Diluted | 6 | **0.55p** | 2.38p | 2.77p |

All results are in respect of continuing operations.

# Condensed Consolidated Balance Sheet

As at 30 June 2008 (unaudited)

| | Notes | **As at 30 June 2008 £'000** | As at 30 June 2007 £'000 | As at 31 December 2007 £'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non Current Assets** | | | | |
| Goodwill | | **381** | 381 | 381 |
| Property, plant and equipment | | **11,572** | 1,110 | 11,778 |
| Available-for-sale investments | | **1,684** | 1,572 | 1,715 |
| Deferred tax asset | | **1,390** | 3,687 | 1,877 |
| | | **15,027** | 6,750 | 15,751 |
| **Current Assets** | | | | |
| Bull positions and other holdings | | **49,975** | 67,436 | 62,497 |
| Trade and other receivables | | **58,602** | 117,110 | 41,764 |
| Derivatives | | **54** | – | 28 |
| Cash and cash equivalents | 8 | **25,852** | 9,976 | 16,743 |
| | | **134,483** | 194,522 | 121,032 |
| **Total Assets** | | **149,510** | 201,272 | 136,783 |
| **Liabilities** | | | | |
| **Current Liabilities** | | | | |
| Bear positions | | **(1,229)** | (6,415) | (2,388) |
| Trade and other payables | | **(38,675)** | (92,422) | (27,696) |
| Derivatives | | **(93)** | – | (202) |
| Tax liabilities | | **(3,291)** | (9,406) | (3,595) |
| Bank overdraft | 8 | **(9,478)** | (7,429) | (356) |
| Borrowings | | **(267)** | – | (200) |
| | | **(53,033)** | (115,672) | (34,437) |
| **Non Current Liabilities** | | | | |
| Borrowings | | **(18,936)** | – | (19,453) |
| Provision for liabilities and charges | | **(395)** | (1,475) | (556) |
| **Total Liabilities** | | **(72,364)** | (117,147) | (54,446) |
| **Net Current Assets** | | **81,450** | 78,850 | 86,595 |
| **Net Assets** | | **77,146** | 84,125 | 82,337 |
| **Equity** | | | | |
| **Capital and Reserves** | | | | |
| Called up share capital | 9 | **6,113** | 6,042 | 6,058 |
| Share premium account | | **19,956** | 19,340 | 19,477 |
| Capital redemption reserve | | **971** | 971 | 971 |
| Own shares | 9 | **(6,748)** | – | (1,195) |
| Other reserve | | **504** | 343 | 429 |
| Retained earnings | | **51,501** | 53,649 | 51,216 |
| **Equity attributable to equity holders of the parent** | | **72,297** | 80,345 | 76,956 |
| Minority interest | | **4,849** | 3,780 | 5,381 |
| **Total Equity** | | **77,146** | 84,125 | 82,337 |

# Condensed Consolidated Statement of Changes in Equity For the six months ended 30 June 2008 (unaudited)

| | Called up, allotted and fully paid up share capital £'000 | Share premium account £'000 | Capital redemption reserve £'000 | Own shares £'000 | Other reserve £'000 | Retained earnings £'000 | Minority Interest £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| **At 1 January 2007** | 6,032 | 19,248 | 971 | – | 665 | 48,351 | 2,796 | 78,063 |
| Retained profit for the period | – | – | – | – | – | 7,581 | 907 | 8,488 |
| Credit in relation to IFRS2 charge | – | – | – | – | 38 | – | – | 38 |
| Available-for-sale investments: | | | | | | | | |
| – Revaluation realised in the period | – | – | – | – | (514) | – | – | (514) |
| – Related deferred tax provision released | – | – | – | – | 154 | – | – | 154 |
| Reduction in deferred tax asset recognised directly in equity | – | – | – | – | – | (262) | – | (262) |
| Equity dividends paid | – | – | – | – | – | (2,021) | – | (2,021) |
| Shares issued in respect of options exercised | 10 | 92 | – | – | – | – | – | 102 |
| Issue of shares in a subsidiary to minority interests | – | – | – | – | – | – | 917 | 917 |
| Dividends paid to minority interest | – | – | – | – | – | – | (840) | (840) |
| **At 30 June 2007** | 6,042 | 19,340 | 971 | – | 343 | 53,649 | 3,780 | 84,125 |
| Retained profit for the period | – | – | – | – | – | 1,218 | 1,324 | 2,542 |
| Credit in relation to IFRS2 charge | – | – | – | – | 40 | – | – | 40 |
| Available-for-sale investments: | | | | | | | | |
| – Revaluation realised in the period | – | – | – | – | 46 | – | – | 46 |
| Reduction in deferred tax asset recognised directly in equity | – | – | – | – | – | (1,992) | – | (1,992) |
| Equity dividends paid | – | – | – | – | – | (1,659) | – | (1,659) |
| Shares issued in respect of options exercised | 16 | 137 | – | – | – | – | – | 153 |
| Issue of shares in a subsidiary to minority interests | – | – | – | – | – | – | 277 | 277 |
| Repurchase of own shares | – | – | – | (1,195) | – | – | – | (1,195) |
| **At 31 December 2007 carried forward** | 6,058 | 19,477 | 971 | (1,195) | 429 | 51,216 | 5,381 | 82,337 |

| | Called up, allotted and fully paid up share capital £'000 | Share premium account £'000 | Capital redemption reserve £'000 | Own shares £'000 | Other reserve £'000 | Retained earnings £'000 | Minority Interest £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| **At 1 January 2008 brought forward** | 6,058 | 19,477 | 971 | (1,195) | 429 | 51,216 | 5,381 | 82,337 |
| Retained profit for the period | – | – | – | – | – | 1,679 | 364 | 2,043 |
| Credit in relation to IFRS2 charge | – | – | – | – | 75 | – | – | 75 |
| Movement on FX reserve | – | – | – | – | – | 75 | – | 75 |
| Equity dividends paid | – | – | – | – | – | (961) | – | (961) |
| Shares issued in respect of options exercised | 55 | 479 | – | – | – | – | – | 534 |
| Repurchase of own shares | – | – | – | (5,553) | – | – | – | (5,553) |
| Reduction in deferred tax asset recognised directly in equity | – | – | – | – | – | (508) | – | (508) |
| Dividends paid to minority interest | – | – | – | – | – | – | (896) | (896) |
| **At 30 June 2008** | **6,113** | **19,956** | **971** | **(6,748)** | **504** | **51,501** | **4,849** | **77,146** |

# Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2008 (unaudited)

| | Notes | **Six months ended 30 June 2008 £'000** | Six months ended 30 June 2007 £'000 | Year ended 31 December 2007 £'000 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Operating profit | | **1,918** | 11,879 | 13,839 |
| Adjustments for: | | | | |
| Depreciation charges | | **312** | 156 | 370 |
| Share-based payment expense | | **75** | 38 | 78 |
| Loss/(profit) on available-for-sale investments | | **36** | (514) | – |
| Profit on sale of fixed assets | | **–** | – | (20) |
| Transfer to income on sale of AFS investments, less related tax | | **–** | – | (360) |
| Movement on FX reserve | | **75** | – | – |
| Decrease in provision for NIC on options | | **(161)** | (7) | (926) |
| Operating cashflows before movement in working capital | | **2,255** | 11,552 | 12,981 |
| Increase in trade and other receivables | | **(16,864)** | (80,298) | (4,912) |
| Increase in trade and other payables | | **10,870** | 66,330 | 1,743 |
| (Decrease)/increase in bear positions | | **(1,159)** | 3,441 | (586) |
| Decrease/(increase) in bull positions | | **2,565** | (4,642) | 198 |
| Decrease in tradeable loan instruments | | **9,957** | – | 99 |
| **Cash generated/(utilised) by operations** | | **7,624** | (3,617) | 9,523 |
| Interest paid | | **(790)** | (330) | (700) |
| Corporation tax paid | | **(304)** | (31) | (5,784) |
| **Net cash generated/(utilised) by operating activities** | | **6,530** | (3,978) | 3,039 |
| **Cash flows from investing activities** | | | | |
| Purchases of fixed assets | | **(106)** | (548) | (11,454) |
| Purchase of available-for-sale investments | | **(5)** | – | (97) |
| Proceeds on disposal of fixed assets | | **–** | – | 42 |
| Interest received | | **894** | 592 | 1,147 |
| **Net cash generated/(utilised) by investing activities** | | **783** | 44 | (10,362) |
| **Cash flows from financing activities** | | | | |
| Shares issued following exercise of options | | **534** | 102 | 255 |
| Shares issued in subsidiary to Minority Interests | | **–** | 917 | 1,194 |
| Repurchase of shares | | **(5,553)** | – | (1,195) |
| (Decrease)/increase in borrowings | | **(450)** | – | 19,653 |
| Dividends paid to Minority Interests | | **(896)** | (840) | (840) |
| Dividends paid to Equity Holders | | **(961)** | (2,021) | (3,680) |
| **Net cash (utilised)/generated by financing activities** | | **(7,326)** | (1,842) | 15,387 |
| **Net (decrease)/increase in cash and cash equivalents during the period** | | **(13)** | (5,776) | 8,064 |
| **Cash and cash equivalents at beginning of period** | | **16,387** | 8,323 | 8,323 |
| **Cash and cash equivalents at end of period** | 8 | **16,374** | 2,547 | 16,387 |

# Notes to the Condensed Interim Financial Report For the six months ended 30 June 2008

## 1. Financial information

The annual financial statements of Shore Capital Group plc 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 six months ended 30 June 2008 has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union. 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 2007.

The financial information set out in this document in respect of the year ended 31 December 2007, does not constitute the Group's statutory accounts for that year within the meaning of section 240 of the Companies Act 1985. Those accounts were prepared under International Financial Reporting Standards and have been reported on by the Company's auditors and delivered to the Registrar of Companies. The auditor's report was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985. A copy of this statement is available on the Company's website at www.shorecap.co.uk.

## 2. Related party transactions

Related party transactions are described in the 2007 Annual Report and Accounts on page 38. There were no other related party transactions during the 6 months ended 30 June 2008.

On 22 July 2008, Puma Hotels plc (formerly Dawnay Shore Hotels plc) engaged Shore Capital Limited as its sole portfolio manager, and two of the directors of Shore Capital Group plc were appointed as chairman and as a director of the company. All investment management fees from the portfolio management agreement are at arm's length.

## 3. Principal risks and uncertainties

Information on the principal long-term risks and uncertainties of the Group is included in the Group's latest Annual Report and Accounts. Many of these are also risks for the short term and could have a material impact on the Group's performance over the remaining six months of the year. A further uncertainty which is one of the principal uncertainties is discussed in the Chairman's Statement under the heading 'Balance Sheet Holdings'.

# Notes to the Condensed Interim Financial Report continued For the six months ended 30 June 2008

## 4. Segmental information

| | **Six months ended 30 June 2008 £'000** | Six months ended 30 June 2007 £'000 | Year ended 31 December 2007 £'000 |
|---|---|---|---|
| **Revenue** | | | |
| Equity capital markets | **10,005** | 16,078 | 29,757 |
| Asset management, principal finance and own balance sheet | **3,156** | 9,389 | 9,067 |
| | **13,161** | 25,467 | 38,824 |
| **Profit before taxation** | | | |
| Equity capital markets | **2,697** | 5,822 | 9,549 |
| Asset management, principal finance and own balance sheet | **(675)** | 6,291 | 4,712 |
| | **2,022** | 12,113 | 14,261 |

| | Equity Capital Markets £'000 | Asset Management, Principal Finance/ own Balance Sheet £'000 | Consolidated £'000 |
|---|---|---|---|
| **Net assets** | | | |
| **Assets** | **68,271** | **81,239** | **149,510** |
| **Liabilities** | **(54,409)** | **(17,955)** | **(72,364)** |
| **At 30 June 2008** | **13,862** | **63,284** | **77,146** |
| Assets | 126,486 | 74,786 | 201,272 |
| Liabilities | (111,238) | (5,909) | (117,147) |
| At 30 June 2007 | 15,248 | 68,877 | 84,125 |
| Assets | 48,631 | 88,152 | 136,783 |
| Liabilities | (30,809) | (23,637) | (54,446) |
| At 31 December 2007 | 17,822 | 64,515 | 82,337 |

## 5. Taxation

The tax charge for the period to 30 June 2008 has been calculated by applying the estimated tax rate, for the current year ending 31 December 2008, to the profit before tax. The deferred tax has been calculated by applying the tax rate that is expected to apply in future accounting periods.

## 6. Earnings per share

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

| | **Six months ended 30 June 2008** | Six months ended 30 June 2007 | Year ended 31 December 2007 |
|---|---|---|---|
| **Earnings (£)** | **1,679,000** | 7,581,000 | 8,799,000 |
| **Number of shares** | | | |
| **Basic** | | | |
| Weighted average number of shares | **292,940,126** | 301,949,515 | 302,049,477 |
| **Diluted** | | | |
| Dilutive effect of share option schemes | **10,789,767** | 17,199,250 | 15,900,001 |
| | **303,729,893** | 319,148,765 | 317,949,478 |
| **Earnings per share** | | | |
| Basic | **0.57p** | 2.51p | 2.91p |
| Diluted | **0.55p** | 2.38p | 2.77p |

## 7. Rates of Dividends Paid and Proposed

| | **Six months ended 30 June 2008 £'000** | Six months ended 30 June 2007 £'000 | Year ended 31 December 2007 £'000 |
|---|---|---|---|
| Amounts recognised as distributions to equity holders in the period: | | | |
| Final dividend for the year ended 31 December 2007 of 0.325p per share | **962** | – | – |
| Final dividend for the year ended 31 December 2006 of 0.67p per share | **–** | 2,021 | 2,021 |
| Interim dividend for the year ended 31 December 2007 of 0.55p per share | **–** | – | 1,659 |
| | **962** | 2,021 | 3,680 |
| Proposed interim dividend for the year ended 31 December 2008 of 0.25p per share | **666** | | |

## 8. Analysis of changes in net funds

| | As at 1 January 2008 £'000 | Cashflows £'000 | **As at 30 June 2008 £'000** |
|---|---|---|---|
| Cash and cash equivalents | 16,743 | 9,109 | **25,852** |
| Bank overdraft | (356) | (9,122) | **(9,478)** |
| | 16,387 | (13) | **16,374** |

# Notes to the Condensed Interim Financial Report continued For the six months ended 30 June 2008

## 9. Called Up Share Capital

| | **Six months ended 30 June 2008 £'000** | Six months ended 30 June 2007 £'000 | Year ended 31 December 2007 £'000 |
|---|---|---|---|
| **Authorised:** | | | |
| 625,000,000 ordinary shares of 2p each | **12,500** | 12,500 | 12,500 |

**Allotted, called up and fully paid:**

| | **Number of shares** | Number of shares | Number of shares |
|---|---|---|---|
| At start of period | **302,895,186** | 301,601,469 | 301,601,469 |
| Shares issued in respect of options exercised | **2,738,787** | 546,341 | 1,293,717 |
| Shares issued for cash | **–** | – | – |
| At end of period | **305,633,973** | 302,147,810 | 302,895,186 |

| | **Six months ended 30 June 2008 £'000** | Six months ended 30 June 2007 £'000 | Year ended 31 December 2007 £'000 |
|---|---|---|---|
| At start of period | **6,058** | 6,032 | 6,032 |
| Shares issued in respect of options exercised | **55** | 10 | 26 |
| Shares issued for cash | **–** | – | – |
| At end of period | **6,113** | 6,042 | 6,058 |

**Shares held in Treasury**

| | **Number of shares** | Number of shares | Number of shares |
|---|---|---|---|
| At start of period | **2,971,797** | – | – |
| Shares purchased in the period | **16,495,308** | – | 2,971,797 |
| Shares sold in the period | **–** | – | – |
| At end of period | **19,467,105** | – | 2,971,797 |

| | **£'000** | £'000 | £'000 |
|---|---|---|---|
| At start of period | **1,195** | – | – |
| Shares issued in respect of options exercised | **5,553** | – | 1,195 |
| Shares issued for cash | **–** | – | – |
| At end of period | **6,748** | – | 1,195 |

On 11 July 2008, the Group repurchased a further 19,600,000 ordinary shares of 2p each. Of these, 11,096,292 shares have been added to the shares held in Treasury and the remaining shares have been cancelled.

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

# Officers and Professional Advisers

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

*Non-executive

## Secretary
J S Paisner

## Registered Number
2089582

## Registered Office
Bond Street House
14 Clifford Street
London W1S 4JU

## Registrar
Computershare Investor Services PLC
P.O. Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH

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

## Solicitors
S J Berwin LLP
10 Queen Victoria Place
London EC4R 1BE

Berwin Leighton Paisner
Adelaide House
London Bridge
London EC4R 9HA

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

Bank of Scotland
New Uberior House
11 Earl Grey Street
Edinburgh EH3 9BN

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

Barclays Bank PLC
1 Churchill Place
London E14 5HP

Shore Capital Group plc
Bond Street House
14 Clifford Street
London W1S 4JU
www.shorecap.co.uk

Tel: 020 7408 4090
Fax: 020 7408 4091
email: info@shorecap.co.uk

The Atlantic Suite
Ground Floor
The Corn Exchange
Fenwick Street
Liverpool L2 7TP

Tel: 0151 600 3700
Fax: 0151 600 3727

Shore Capital International Ltd
Unter den Linden 32/34
10117 Berlin
Germany

Tel: +49 (0)30 204 587 - 0
Fax: +49 (0)30 204 587 - 187