Shore Capital Group Limited

Interim Report 2012

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Highlights

Financial Highlights

- Revenue of £17.8m (2011 H1: £20.4m) – 28.3 per cent up on 2011 H2 (£13.8m)
- Profit before tax of £2.2m (excluding Spectrum and DBD) (2011 H1: £4.3m)
- Profit before tax of £1.5m (including Spectrum and DBD) (2011 H1: £3.9m) – substantially ahead of 2011 H2 (£0.03m)
- Earnings per share of 0.48p; 0.63p excluding Spectrum and DBD (2011 H1: 0.93p; 1.02p excluding Spectrum and DBD)
- Balance sheet remains strong with liquidity of £28.8m, plus a further £20m working capital facility that was unused at the period end

Operational Highlights

- Continued resilience from ECM operations, generating pre tax profits of £2.84m (2011 H1: £4.44m), substantially ahead of last year's second half (2011 H2: £0.6m)
- Secondary commission revenue up by 9 per cent over 2011 H1; funds raised for corporate clients during the period totalled c.£80m
- Following the successful launch of eight Puma VCTs, the venture capital team will launch Puma VCT 9 imminently
- St Peter Port Capital shareholders voted in favour by a majority of 94 per cent to extend the fund for a further 5 years
- German telecoms business 'Spectrum Investments' continues to offer significant potential investment upside as validated by recent sale of two competing licences to a leading mobile operator

Chairman's Statement

"We started 2012 with renewed optimism following the difficult market conditions in the second half of 2011 and I am pleased to report that our business continues to perform strongly within our sector. There clearly remain broader economic and political challenges but our ability to seek out investment opportunities and support a vibrant and entrepreneurial client base remains at the heart of our success.

"We are optimistic that recent improved market activity will continue and we believe our business has the right blend of talent and diversity to continue to generate meaningful returns for shareholders."

Introduction

Despite the second half of 2011 being one of the most challenging periods for our industry, we started 2012 with renewed confidence and optimism. Whilst the broader macroeconomic climate across many of the developed economies has not significantly changed, we have produced a much stronger performance in the first half of 2012 than in the latter part of 2011. We are therefore pleased to report revenue of £17.76m (2011 H1: £20.44m; 2011 H2: £13.84m*) and a profit before tax of £1.48m (2011 H1: £3.86m; 2011 H2: £0.03m*). (*excluding exceptional losses relating to the Group's investment in Puma Hotels).

Our Equity Capital Markets ("ECM") division continues to perform well, delivering a very creditable performance for the first six months. We are particularly pleased that in a period of declining commission, our secondary commission revenue has increased by 9 per cent over the first half of 2011. Four new clients were retained in the period with two subsequently added since the period end. The Group's appointment as a corporate broker to FBD Holdings, a €300m capitalisation property and casualty insurer, is a sign of the strength of our advisory platform and the team now services 61 retained corporate clients. Corporate advisory complements the provision of research and broking for institutional and professional clients, as well as market making activities in some 1,200 stocks.

Our German telecoms asset, Spectrum Investments, remains a very exciting prospect for the Group. Next generation data services across Western Europe continue to command a premium rating as mobile consumers demand greater data capacity driven by the proliferation of smart phones. The recent sale of two comparable national wireless access frequencies in Germany to a leading mobile telecoms operator validates our belief that Spectrum Investments is an extremely valuable asset for telecoms operators as demand for bandwidth is projected to grow exponentially. We are confident therefore that this asset can lead to an extremely profitable realisation in due course.

Our results have highlighted the resilience that exists within our business and we believe the remainder of the current year could yield further progress.

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 2012 £'000	Operating Businesses 2011 £'000	Balance sheet holdings 2012 £'000	Balance sheet holdings 2011 £'000	Total 2012 £'000	Total 2011 £'000
Revenue	15,920	19,553	630	62	16,550	19,615
Administrative expenditure	(14,079)	(15,096)	(50)	–	(14,129)	(15,096)
Operating profit	1,841	4,457	580	62	2,421	4,519
Interest income	146	94	–	–	146	94
Finance costs	(357)	(313)	–	–	(357)	(313)
	(211)	(219)	–	–	(211)	(219)
Profit before taxation	1,630	4,238	580	62	2,210	4,300
Taxation	(378)	(1,191)	–	–	(378)	(1,191)
Profit/(loss) for the year after taxation	1,252	3,047	580	62	1,832	3,109
Attributable to:						
Equity holders of the parent	948	2,443	580	62	1,528	2,505
Minority interests	304	604	–	–	304	604
	1,252	3,047	580	62	1,832	3,109
Earnings per share						
Basic	0.39p	0.99p	0.24p	0.03p	0.63p	1.02p
Diluted	0.39p	0.98p	0.24p	0.02p	0.63p	1.00p

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 51 per cent of Spectrum, which in turn owns just over 58 per cent of DBD. Our net economic interest in DBD is therefore just under 30 per cent and the balance of the loss before tax is attributable to the minority shareholders.

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

Six months ended 30 June	**Total excluding Spectrum/ DBD 2012 £'000**	Total excluding Spectrum/ DBD 2011 £'000	**Spectrum/ DBD 2012 £'000**	Spectrum/ DBD 2011* £'000	**Total including Spectrum/ DBD 2012 £'000**	Total including Spectrum/ DBD 2011 £'000
Revenue	**16,550**	19,615	**1,210**	824	**17,760**	20,439
Administrative expenditure	**(14,129)**	(15,096)	**(1,939)**	(1,314)	**(16,068)**	(16,410)
Operating profit/(loss)	**2,421**	4,519	**(729)**	(490)	**1,692**	4,029
Interest income	**146**	94	**–**	2	**146**	96
Finance costs	**(357)**	(313)	**–**	–	**(357)**	(313)
Negative goodwill on acquisition of DBD	**–**	–	**–**	49	**–**	49
	(211)	(219)	**–**	51	**(211)**	(168)
Profit/(loss) before taxation	**2,210**	4,300	**(729)**	(439)	**1,481**	3,861
Taxation	**(378)**	(1,191)	**–**	–	**(378)**	(1,191)
Profit/(loss) for the year after taxation	**1,832**	3,109	**(729)**	(439)	**1,103**	2,670
Attributable to:						
Equity holders of the parent	**1,528**	2,505	**(370)**	(222)	**1,158**	2,283
Minority interests	**304**	604	**(359)**	(217)	**(55)**	387
	1,832	3,109	**(729)**	(439)	**1,103**	2,670
Earnings/(losses) per share						
Basic	**0.63p**	1.02p	**(0.15p)**	(0.09p)	**0.48p**	0.93p
Diluted	**0.62p**	1.00p	**(0.15p)**	(0.09p)	**0.47p**	0.91p

* three months only

Income and expenditure

Revenue for the half-year decreased 13.1 per cent to £17.76m (2011 H1: £20.44m) compared to the first half of 2011. Pleasingly, however, it was up 28.3 per cent compared to the second half of 2011.

Table 3: Analysis of the Group's performance in the first half of 2012 compared to each of the first and second halves of 2011

Total including Spectrum/DBD	Six months ended 30 June 2012 £'000	Six months ended 30 June 2011 £'000	Six months ended 31 December 2011* £'000
Revenue	17,760	20,439	13,842
Profit before taxation	1,481	3,861	32
Earnings per share	0.48p	0.93p	0.01p

* pre the loss of £4,768,000 re the Group's investment in Puma Hotels

The Group excluding Spectrum/DBD

Administrative expenses were £14.13m (2011 H1: £15.10m), a decrease of 6.4 per cent. Interest income was £146,000 (2011 H1: £96,000), whilst finance costs were £357,000 (2011 H1: £313,000), leading to a net finance cost of £211,000 (2011 H1: £219,000).

Profit before tax was £2.21m (2011 H1: £4.30m), generating earnings per share of 0.63p (2011 H1: 1.02p). The net margin before tax was 13.4 per cent (2011 H1: 21.9 per cent).

Revenue from Equity Capital Markets ("ECM") was £11.55m (2011 H1: £14.28m). Profit before tax from ECM was £2.84m (2011 H1: £4.44m), with a net margin of 24.6 per cent (2011 H1: 31.1 per cent). Revenue from Asset Management was £3.97m (2011 H1: £4.76m) with a net margin of 12.7 per cent (2011 H1: 22.9 per cent). Balance sheet holdings contributed a net gain of £0.58m (2011 H1: £0.06m).

Spectrum Investments/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).

The consolidated loss before tax arising from this investment was £0.73m (2011 H1: £0.44m) for the half year, while the comparative covers the 3 month period following the acquisition at the end of March 2011. This loss has partially offset the profit before tax of the rest of the Group, the net effect of which was a reported profit before tax of £1.48m (2011: £3.86m).

Liquidity

We have a £20m working capital facility which was unutilised at the period end. During the period the Group repaid its medium term evergreen facility as the terms no longer provided the flexibility sought by the Group.

As at the balance sheet date, gross liquidity was £28.8m comprising cash balances of £25.6m (2011 H2: £47.3m; 2011 H1: £43.9m) and £3.2m of gilts and bonds. This liquidity demonstrates the Group's continuing ability to undertake a range of transactions as opportunities arise in the near term.

The reduction in cash balances to £25.6m from £47.3m at the end of 2011 was due to the repayment of the Group's £15m evergreen facility together with an increase in net market debtors in our stockbroking subsidiary of £6.2m. Our net market debtors are typically lower at the end of December reflecting the lower volumes during that time of year than at the end of June.

Balance Sheet

Our balance sheet remains strong and very liquid. Total equity at £65.2m was almost unchanged from 2011 year end (2011 H2: £65.4m; 2011 H1: £71.5m) after payment of dividends.

In addition to the £25.6m of cash and £3.2m of gilts and bonds (as referred to above), we held £7.8m in the various Puma Funds, £0.7m net in quoted equities, £0.4m net in the Lily Partnership and a further £1.3m in other unquoted holdings. In addition, we held £4.1m in Spectrum Investments (on a gross basis, before allowing for minority interests). The value of these various holdings is affected by overall market movements and by specific events affecting the individual investments. Following a further provision against our holding in Puma Hotels, this is now valued at only £32,000 in the balance sheet.

The remainder of our balance sheet totalled £22.1m net, which comprised £23.2m of net market debtors in our stockbroking subsidiary less various provisions, including staff incentive costs and other accruals.

Net Asset Value per Share

Net asset value per share at the end of the period was 24.4p (2011 H2: 24.2p; 2011 H1: 26.5p).

Dividend

In April I wrote that in view of the changes to the rate of income tax in the UK, it is the Board's intention not to declare an interim dividend for 2012, but to declare a dividend for the year to be paid in April 2013. Accordingly, no interim dividend is proposed (2011 H1: 0.25p).

Operating Review

The following operating review reports on our three main areas of focus, namely Equity Capital Markets, Alternative Asset Class Fund Management and Principal Finance.

Equity Capital Markets ("ECM")

Overview

We are particularly pleased that in a period of declining commission, our secondary commission revenue has increased by 9 per cent over the first half of 2011.

In ECM we provide research in selected UK sectors covering some 200 companies, broking for institutional and professional clients, market-making in c.1,200 UK stocks, with a strong presence on the AIM segment, and corporate finance for mid and small cap companies.

Following on from its resilient performance in the second half of 2011, the division has had a strong performance in the first half of 2012, trading profitably in the continuing challenging environments and achieving a profit before tax for the first half of £2.84m (2011: £4.44m). Each of the division's operating businesses continued to produce robust revenues and we continue to benefit from the division's diverse income streams. Having a strong balance sheet and continuing to be viewed as a strong and consistent counterparty by both our clients and market participants is a key strength in the current trading environment.

We continue to grow our corporate finance franchise, increasing the number of retained clients to a total of 61, most recently winning two further retained clients being FBD Holdings plc (market capitalisation c. €300m) and The ReThink Group plc.

Where we see incremental growth for the business, we continue to add senior, experienced individuals and teams.

Research and Sales

The pressure in the market for secondary commissions, either direct or via commission sharing agreements (payments received from institutional investors for services provided in respect of the research and sales functions) remains intense. This is a function of both reduced trading volumes together with a greater use by institutional fund managers of so-called 'dark pools'. Indeed, this pressure was evidenced by the first real reduction in broking capacity for many years, as a number of our competitors either closed, sought mergers or were acquired.

With this trading environment in mind, our research and sales team delivered a commendable performance in the first half of 2012 with a 9 per cent increase in revenue. Our branch network in London, Edinburgh and Liverpool remains a key point of differentiation, facilitating deep access to institutions across the UK and Ireland, whilst a recent recruit to the sales team has now opened up the Nordic regions for our product. Privileged access to institutions enables our team to deliver high quality roadshows across the UK, Ireland and the Nordic for quoted companies. Further evidence of the strength of the Group's research team was provided by the results from the Thomson Reuters 2012 Extel UK Small & Midcap Survey in which our analysts achieved top 5 analyst ratings in 5 sectors.

Market-making

Our market-making team has seen a strong increase in trading volumes and revenue since the beginning of the year in comparison to the second half of 2011, albeit still lower than the exceptionally high volumes in the first quarter of 2011. We continue to benefit from a relatively low inventory and tight cost structure, and this performance again demonstrates the strength and resilience of our franchise.

Although market activity and volumes have continued to be generally challenging, we have seen an improvement in profitability compared to the second half of last year. We are now starting to see some encouraging signs of a recovery in interest and activity in the small cap segment.

We deal direct with the major retail brokers as a Retail Service Provider through a broad range of electronic links and with a broad range of institutions including fund managers, hedge funds and private banks. London Stock Exchange statistics continue to show us to be the third largest market maker by number of stocks covered.

Corporate Finance

Our corporate finance team has continued to build on its achievements of 2011. During the first six months of 2012 the team completed several notable transactions including three admissions, two takeovers and ten fundraisings raising a total of approximately £80m, which in the current environment is very pleasing. Our natural resource franchise has continued to grow during the period and the three admissions mentioned above were all for companies in this sector.

There were a number of noteworthy transactions including a reverse takeover transaction raising £10m for a company renamed Fastnet Oil & Gas plc which, within five weeks of its admission, announced the acquisition of Pathfinder Hydrocarbon Ventures Limited for US$10m in July 2012. In addition, during 2012 we have seen a marked increase in the amount of advisory work and in April 2012 we announced our appointment as financial adviser and broker to Namakwa Diamonds plc, a fully listed diamond producer, following which we completed a US$55m refinancing and subsequent move to AIM for the company. The corporate team also acted for Ai Claims Solutions plc on its takeover by Quindell Portfolio plc; for Lees Foods plc on its management buyout; the IPO of Inspired Energy and for a number of other clients on advisory mandates.

The team also achieved continued success in growing its retained client list winning four new clients from competitors in the period. In total we are retained adviser to some 61 companies having also since the period end completed the admission of Wishbone Gold plc and winning two further retained clients being FBD Holdings plc (market capitalisation circa €300m) and the The ReThink Group plc.

Alternative Asset Class Fund Management and Principal Finance

Funds under Management

Total funds under management as at 30 June 2012 were £0.86bn, compared to £1.21bn at 31 December 2011.

This reduction reflects: i) our having taken the decision to close our discretionary investment management services to private clients and transfer out those monies; ii) a revaluation of the hotel portfolio held by Puma Hotels; and iii) movements in Euro exchange rates.

Venture Capital

Puma Venture Capital Trusts ("VCTs")

To date we have successfully launched eight Puma VCTs and are in the process of launching Puma VCT 9 which will follow the same successful investment strategy, and build on the market-leading track record, of the previous Puma VCTs.

Each of our VCTs has a focus on providing secured loans to well-run companies that are finding it hard to raise finance on attractive terms from banks. They are each limited-life vehicles, aiming to distribute the initial capital and returns to their investors after five years. Puma VCTs I–V have each produced the highest total return of their respective peer groups.

The first two of our VCTs, which were raised in 2005, are the only such VCTs to have paid out in cash 100p to investors (which relates to a net investment cost of 60p per share). They have approximately 2p of assets yet to distribute and are the top performing VCTs in their limited-life peer group. They are now being wound up in accordance with the plans set out in their original prospectuses.

Puma VCTs III and IV have also passed their five year period and are in the process of completing the return of their capital to shareholders. A substantial proportion of their respective assets have been successfully liquidated and they have so far returned 85.5p per share in cash to their investors (which again relates to a net investment cost of 60p per share). They have approximately 9p of assets yet to distribute, representing the highest total return of any limited life VCT raised in that year.

Puma VCT V is the top performing VCT of all those raised in 2007, whilst Puma High Income VCT (launched in 2010) and Puma VCT VII (launched in 2011) have both started well and have paid out dividends to date of 14p and 5p respectively. Puma VCT 8 was launched earlier this year.

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 be launching our ninth VCT for the current tax year and hope to capitalise on our excellent track record.

St Peter Port Capital ("SPPC")

St Peter Port Capital 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.

As at 31 December 2011 it had investments in 49 companies and had a NAV per share of 105.35p after payment of a dividend of 3p per share and a special dividend of 2p per share. The reduction in NAV over the year of 7.0 per cent was a particularly resilient performance in the face of another extremely distressed period for small cap and illiquid securities. SPPC's most recent annual accounts showed an NAV of 106p per share at 31 March 2012. Following on from successful realisations within its portfolio, it has paid out cumulative dividends to shareholders of 8p per share. Since inception £55.7m has been realised, generating a gain of 90 per cent on these investments.This performance is impressive given the market conditions St Peter Port has experienced since launch in 2007.

In June of this year, the shareholders voted overwhelmingly (by 94 per cent) in favour of continuing the fund for another five years, a strong endorsement of their commitment to this investment strategy.

Real Estate

Puma Brandenburg Limited ("PBL")

PBL has had a solid operating performance in the period and looks forward to seeing continued revenue growth from an active asset management approach. PBL has had continued strong cashflow from sales of apartments at Mendelsohn Quartier totaling €3m in the year to 31 March 2012. In addition, the balance of the Berlin residential portfolio has performed particularly strongly with rental income growing by 4.5 per cent during the year ending 31 March 2012. Further, the modernisation initiative being implemented by Shore Capital has continued to help underpin the quality of the residential portfolio. Within the Berlin residential portfolio, the average rent increases of refurbished flats is 16 per cent higher when compared to the un-refurbished flats in the same location.

In respect of the commercial portfolio there have also been successful lease renewals, most notably with the existing hotel tenant Accor at the commercial building in Nurnberg where a new 20 year lease has been signed. Further, the completion of the refurbishment programme undertaken by Hyatt at the hotel asset in Cologne has been extremely well received in the market.

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 plc ("PHP")

PHP's interim results for the six months to 30 June 2012 covered a period which saw significant changes in its operations. As previously reported, the leases with Barceló Hotels and Resorts ("Barceló") were terminated on 25 April 2012 and from this time the hotels have been operated by PHP.

PHP generated a profit of £16.0m for the first half (2011H1: Loss of £0.3m). This significant increase in profitability was driven by the net lease termination fee of £20.3m received from Barceló. The receipt of this termination fee allowed PHP to reduce its senior debt facility by approximately £20m.

Since taking over the hotel operations, PHP has augmented the existing hotels team through a number of key appointments including Paul Nisbett as Commercial and Finance Director and Nick Gamble as Group Operations Director. Paul and Nick have significant experience in the regional UK hotel sector where they have held senior positions. In addition, PHP has recently appointed Fredrik Korallus as its new Chief Executive Officer. Fredrik will commence his role on 8 October having previously held a number of senior positions at Rezidor and Carlson, including Carlson's COO for the Americas and EVP Global Revenue Generation. PHP believe that Fredrik's particular expertise in sales, marketing and revenue management will bring an added dimension to the Group.

Despite trading conditions remaining challenging with many provincial UK markets showing a decline year-on-year, the PHP team, with Shore Capital's assistance, has been very effective in mitigating the challenges that arise in taking over a business of this scale.

Hedge Funds

Puma Sphera

Puma Sphera experienced volatile markets with gains in the first quarter eroded in the second quarter, reflecting renewed European debt problems and moderating global growth. However, the fund continues to outperform the Tel-Aviv 100 and 2012 has returned 0.12 per cent against a loss of 0.88 per cent for the Index. Even with the challenges faced, the long term performance of Puma Sphera is strong with an annualised return since inception of 14.99 per cent compared with 6.18 per cent for the Dow Jones Credit Suisse Hedge Fund index and 6.13 per cent for the Tel-Aviv 100 Index. Puma Sphera continues its consistent approach of not taking excessive risks and remaining focused on companies or sectors that are less correlated to macro-economic uncertainties.

Principal Finance

Investment in German Telecoms Business

As previously reported to shareholders, Spectrum Investments was formed in 2011 to acquire a 58 per cent controlling interest in DBD Deutsche Breitband Dienste GmbH ("DBD"), a German telecoms business. The key assets of the company are licences over several frequencies in the 3.4 to 3.6 GHz range, being 38 regional wireless local loop ("WLL") frequencies and 28 regional broadband wireless access ("BWA") frequencies covering the whole country.

The national BWA frequencies licences were granted to DBD in 2006 in an auction process in which similar national licences were granted to two other operators. The competing two licences were recently sold to a leading mobile telecoms operator and we believe that these licences are likely to be used by the new owner to provide more bandwidth for customers using 4G data services.

Whilst details on the prices paid are not publicly available, we believe that the transaction validates our belief that the spectrum owned by DBD is an extremely valuable asset for telecoms operators as the demand for bandwidth is projected to grow exponentially. More and more people will continue to use data services, particularly as the 4G technology is more widely adopted, and we are confident that this investment can lead to a very profitable realisation in due course.

Current Trading and Prospects

Activity levels at the start of the second half continue to show encouraging signs. Our growing market share is mirrored in the robust performance from our ECM franchise, which boasts strong market making, research and institutional sales capabilities combined with a substantial book of corporate mandates and a burgeoning pipeline. A striking example is our research and sales team which delivered a 9 per cent increase in revenue in the first half of 2012 over the comparable period last year; a very strong performance especially against a contraction in broking capacity as a number of our competitors either closed, sought mergers or were acquired.

Although the macro-economic environment continues to be challenging, especially in Europe, we continue to be positive about the outlook for the remainder of the year. We will seek to maintain tight cost control, a robust balance sheet and take measured risk as we continue to seek out profitable opportunities. We are excited about the prospects for one such opportunity, namely our interest in Spectrum Investments, our German telecoms business and, in particular, the recent validation of its upside potential in light of the recent sale of two competing licences to a leading mobile operator. We believe that continuing to deploy our clear strategy will ensure long term success.

Howard P Shore
Executive Chairman

24 September 2012

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 2012 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 6. 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 2012 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

24 September 2012

Consolidated Income Statement

For the six months ended 30 June 2012 (unaudited)

	Notes	Six months ended 30 June 2012 Excluding Spectrum/ DBD £'000	Six months ended 30 June 2012 Spectrum/ DBD £'000	Six months ended 30 June 2012 Including Spectrum/ DBD £'000	Six months ended 30 June 2011 £'000	Year ended 31 December 2011 (audited) £'000
Revenue	3	16,550	1,210	17,760	20,439	29,513
Administrative expenditure		(14,129)	(1,939)	(16,068)	(16,410)	(30,083)
Operating profit/(loss)		2,421	(729)	1,692	4,029	(570)
Interest income		146	–	146	96	288
Finance costs		(357)	–	(357)	(313)	(642)
Negative goodwill on acquisition of DBD		–	–	–	49	49
Profit/(loss) before taxation	3	2,210	(729)	1,481	3,861	(875)
Taxation		(378)	–	(378)	(1,191)	(189)
Profit/(loss) for the period		1,832	(729)	1,103	2,670	(1,064)
Attributable to:						
Equity holders of the parent		1,528	(370)	1,158	2,283	(1,088)
Non controlling interests		304	(359)	(55)	387	24
		1,832	(729)	1,103	2,670	(1,064)
Earnings/(losses) per share						
Basic	4	0.63p	(0.15p)	0.48p	0.93p	(0.45p)
Diluted	4	0.62p	(0.15p)	0.47p	0.91p	(0.44p)

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012 (unaudited)

	Six months ended 30 June 2012 Excluding Spectrum £'000	Six months ended 30 June 2012 Spectrum £'000	Six months ended 30 June 2012 £'000	Six months ended 30 June 2011 £'000	Year ended 31 December 2011 (audited) £'000
Profit/(loss) for the period	1,832	(729)	1,103	2,670	(1,064)
Loss on revaluation of available-for-sale investments taken to equity	–	–	–	–	(1,064)
Gains/(losses) on cash flow hedges	(11)	–	(11)	162	146
Taxation	3	–	3	(43)	(39)
	(8)	–	(8)	119	107
Exchange difference on translation of foreign operations	(65)	11	(54)	(26)	11
Other comprehensive income for the period, net of tax, from continuing operations	(73)	11	(62)	93	118
Total comprehensive income for the period, net of tax	1,759	(718)	1,041	2,763	(2,010)
Attributable to:					
Equity holders of the parent	1,521	(369)	1,152	2,376	(2,159)
Non controlling interests	238	(349)	(111)	387	149
	1,759	(718)	1,041	2,763	(2,010)
Comprehensive earnings/(losses) per share					
Basic	0.63p	(0.15p)	0.48p	0.97p	(0.89p)
Diluted	0.62p	(0.15p)	0.47p	0.94p	(0.87p)

Consolidated Statement of Financial Position

As at 30 June 2012 (unaudited)

	Notes	As at 30 June 2012 £'000	As at 30 June 2011 £'000	As at 31 December 2011 (audited) £'000
Non-current assets				
Goodwill		**381**	381	381
Intangible assets		**4,106**	4,290	4,251
Property, plant & equipment		**11,908**	12,320	12,516
Available-for-sale investments		**4,402**	10,540	4,505
Deferred tax asset		**–**	205	–
		20,797	27,736	21,653
Current assets				
Bull positions and other holdings designated at fair value		**9,582**	13,479	7,048
Available-for-sale investments		**32**	–	450
Trade and other receivables		**100,947**	59,796	42,681
Tax assets		**350**	–	629
Cash and cash equivalents		**25,545**	43,917	47,305
		136,456	117,192	98,113
Total assets	3	**157,253**	144,928	119,766
Current liabilities				
Bear positions		**(1,043)**	(1,326)	(786)
Trade and other payables		**(78,366)**	(42,124)	(25,267)
Derivatives		**(596)**	(794)	(360)
Tax liabilities		**–**	(1,032)	–
Borrowings		**(339)**	(331)	(345)
		(80,344)	(45,607)	(26,758)
Non-current liabilities				
Borrowings		**(11,351)**	(27,628)	(27,264)
Deferred tax liability		**(339)**	–	(279)
Provision for liabilities and charges		**(39)**	(217)	(36)
		(11,729)	(27,845)	(27,579)
Total liabilities	3	**(92,073)**	(73,452)	(54,337)
Net Current Assets		**56,112**	71,585	71,355
Net Assets		**65,180**	71,476	65,429
Equity				
Capital and Reserves				
Called up share capital		**–**	–	–
Share premium account		**336**	170	336
Merger reserve		**27,198**	27,198	27,198
Other reserves		**1,181**	2,208	1,187
Retained earnings		**30,183**	34,703	29,867
Equity attributable to equity holders of the parent		**58,898**	64,279	58,588
Non controlling interests		**6,282**	7,197	6,841
Total equity		**65,180**	71,476	65,429

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012 (unaudited)

	Share capital £'000	Share Premium account £'000	Merger reserve £'000	Other reserves £'000	Retained earnings £'000	Non Controlling interests £'000	Total £'000
At 1 January 2011	–	170	27,198	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 interest in subsidiaries including Spectrum	–	–	–	–	(60)	2,527	2,467
At 30 June 2011	–	170	27,198	2,208	34,703	7,197	71,476
Retained loss for the period	–	–	–	–	(3,371)	(363)	(3,734)
Revaluation of available for sale investments	–	–	–	(1,064)	–	–	(1,064)
Credit in relation to share based payments	–	–	–	52	–	–	52
Foreign currency translation	–	–	–	–	(91)	128	37
Valuation change on cash flow hedge	–	–	–	(9)	–	(3)	(12)
Equity dividends paid	–	–	–	–	(604)	–	(604)
Dividends paid to non controlling interests	–	–	–	–	–	(43)	(43)
Shares issued in respect of options exercised	–	166	–	–	–	–	166
Repurchase/cancellation of own shares	–	–	–	–	(472)	–	(472)
Deferred tax charge recognised directly in equity	–	–	–	–	(298)	–	(298)
Investment by non controlling interest in subsidiaries including Spectrum	–	–	–	–	–	(75)	(75)
At 31 December 2011	–	336	27,198	1,187	29,867	6,841	65,429

Consolidated Statement of Changes in Equity continued

For the six months ended 30 June 2012 (unaudited)

	Share capital £'000	Share Premium account £'000	Merger reserve £'000	Other reserves £'000	Retained earnings £'000	Non Controlling interests £'000	Total £'000
At 1 January 2012	–	336	27,198	1,187	29,867	6,841	65,429
Retained profit for the year	–	–	–	–	1,158	(55)	1,103
Foreign currency translation	–	–	–	–	–	(54)	(54)
Valuation change on cash flow hedge	–	–	–	(6)	–	(2)	(8)
Equity dividends paid	–	–	–	–	(604)	–	(604)
Dividends paid to non controlling interests	–	–	–	–	(238)	(534)	(772)
Investment by non controlling interest in subsidiaries including Spectrum	–	–	–	–	–	86	86
At 30 June 2012	**–**	**336**	**27,198**	**1,181**	**30,183**	**6,282**	**65,180**

Consolidated Cash Flow Statement

For the six months ended 30 June 2012 (unaudited)

	Six months ended 30 June 2012 £'000	Six months ended 30 June 2011 £'000	Year ended 31 December 2011 (audited) £'000
Cash flows from operating activities			
Operating profit/(loss)	1,692	4,029	(570)
Adjustments for:			
Depreciation charges	598	435	868
Share-based payment expense	36	–	52
Loss on disposal of fixed assets	–	27	27
Loss on available-for-sale investments	502	148	4,682
Increase/(decrease) in provision for NIC on options	3	45	(136)
Operating cash flows before movement in working capital	2,831	4,684	4,923
(Increase)/decrease in trade and other receivables	(58,266)	192	20,104
Increase/(decrease) in trade and other payables	53,288	1,163	(18,778)
Decrease/(increase) in bear positions	257	(17)	(557)
(Increase)/decrease in bull positions	(2,534)	(2,278)	1,154
Cash (utilised)/generated by operations	(4,424)	3,744	6,846
Interest paid	(357)	(313)	(642)
Corporation tax paid	(36)	(1,510)	(1,979)
Net cash (utilised)/generated by operating activities	(4,817)	1,921	4,225
Cash flows from investing activities			
Purchases of fixed assets	(28)	(444)	(536)
Sale of fixed assets	–	–	11
Acquisition of subsidiary net of cash acquired	–	(914)	(914)
Purchase of AFS investments	(6)	–	(74)
Purchase of additional intangible assets	(180)	(32)	(295)
Sale of AFS investments	25	479	540
Interest received	146	96	288
Net cash utilised by investing activities	(43)	(815)	(980)
Cash flows from financing activities			
Shares issued following exercise of options	–	–	166
Shares/participations issued in subsidiaries to minority interests	86	2,467	2,392
Repurchase of shares	–	(474)	(946)
(Decrease)/increase in borrowings	(15,650)	(378)	1,659
Dividends paid to non controlling interests	(772)	(1,525)	(1,568)
Dividends paid to Equity Holders	(604)	(1,528)	(2,132)
Net cash utilised by financing activities	(16,940)	(1,438)	(429)
Net (decrease)/increase in cash and cash equivalents during the period	(21,800)	(332)	2,816
Effects of exchange rate changes	40	–	240
Cash and cash equivalents at beginning of period	47,305	44,249	44,249
Cash and cash equivalents at end of period	25,545	43,917	47,305

Notes to the Interim Financial Report

For the six months ended 30 June 2012 (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 2012 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.

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 2011, 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.

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.

1. Financial information continued

Business combinations continued

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.

The long term liabilities in DBD represent loans to the company from its shareholders. These obligations are only repayable to the extent that DBD has surplus net assets and this is the basis used to determine their fair value. This fair value has then been adjusted to only reflect the long term liabilities due to the non controlling interests, as the balance of the liabilities eliminate on consolidation. As a result, prior to 31 December 2011, and as set out in our 2011 financial statements, the fair value recognised was adjusted to £2,839,000 at the acquisition date.

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 4 April 2012. 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 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.

Six months ended 30 June 2012

	Equity Capital Markets £'000	Asset Management/ Principal Finance £'000	Balance sheet holdings £'000	Central costs £'000	Spectrum £'000	Consolidated £'000
Revenue	11,550	4,370	630	–	1,210	17,760
Results						
Depreciation	63	336	–	26	–	425
Profit/(loss) before tax	2,839	(199)	580	(1,010)	(729)	1,481
Assets	101,554	16,711	30,559	2,097	6,332	157,253
Liabilities	77,641	10,541	(651)	884	3,622	92,037

Six 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/(loss) before tax	4,437	492	62	(691)	(439)	3,861
Assets	65,398	17,792	38,805	13,488	9,445	144,928
Liabilities	41,793	11,529	3,695	11,522	4,913	73,452

Year ended 31 December 2011

	Equity Capital Markets £'000	Asset Management/ Principal Finance £'000	Balance sheet holdings £'000	Central costs £'000	Spectrum £'000	Consolidated £'000
Revenue	22,545	8,563	(3,884)	–	2,289	29,513
Results						
Depreciation	129	180	505	54	–	868
Profit/(loss) before tax	5,018	2,224	(6,140)	(725)	(1,252)	(875)
Assets	47,883	5,800	56,820	1,765	7,498	119,766
Liabilities	22,375	1,337	25,529	1,075	4,021	54,337

4. Earnings per share

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

	Six months ended 30 June 2012	Six months ended 30 June 2011	Year ended 31 December 2011
Earnings/(loss) (£)	1,158,000	2,283,000	(1,088,000)
Number of shares			
Basic			
Weighted average number of shares	241,639,601	244,450,877	243,038,613
Diluted			
Dilutive effect of share option scheme	2,273,236	7,611,859	4,490,770
	243,912,837	252,062,736	247,529,383
Earnings/(loss) per share			
Basic	0.48p	0.93p	(0.45p)
Diluted	0.47p	0.91p	(0.44p)

5. Rates of dividends paid and proposed

	Six months ended 30 June 2012 £'000	Six months ended 30 June 2011 £'000	Year ended 31 December 2011 £'000
Amounts recognised as distributions to equity holders in the period:			
Final dividend for the year ended 31 December 2011 of 0.25p per share	604	–	–
Second interim dividend for the year ended 31 December 2010 of 0.625p per share	–	1,528	1,528
Interim dividend for the year ended 31 December 2011 of 0.25p per share	–	–	604
	604	1,528	2,132
No interim dividend is proposed for the year ended 31 December 2012	–		

6. Called up share capital

	Number of shares	£'000
Shore Capital Group Limited – ordinary shares of nil par value		
At 1 January 2011	244,450,877	–
Shares repurchased and cancelled	(1,823,549)	–
At 30 June 2011	**242,627,328**	**–**
Shares issued in respect of options exercised	827,273	–
Shares repurchased and cancelled	(1,815,000)	–
At 31 December 2011 & 30 June 2012	**241,639,601**	**–**

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