Shore Capital Group Limited

Annual Report and Accounts 2011

Contents

Highlights

Financial Key Points

- Revenue from operating businesses* of £32.3m (2010: £37.3m)
- Profit before tax from operating businesses* of £5.4m (2010: £10.2m)
- Statutory revenue of £29.5m (2010: £35.5m), and loss before tax of £0.9m (2010: profit of £8.4m) which includes:
  - £4.8m loss on investment in Puma Hotels; and
  - £1.3m loss due to the requirement to consolidate in full our investment in Spectrum Investments
- Balance sheet liquidity of £50.5m (2010: £47.6m) of which £47.3m (2010: £44.2m) in cash

*Operating businesses exclude Spectrum/DBD

Operational Highlights

- Extremely resilient performance from ECM achieving a pre tax profit of £5.0m (2010: £7.6m)
- ECM starts 2012 with a significantly expanded corporate client base with more AIM advisory mandates won than any of its competitors in the last quarter of 2011
- Asset management builds on strong VCT track record with launch of Puma VCT 8
- Acquisition of Spectrum Investments presents significant opportunity

Corporate Profile

Shore Capital is an independent investment group specialising in equity capital market activities, management of alternative assets, and principal finance. The ECM division offers a wide range of services for companies, institutions and other sophisticated clients including corporate finance, stockbroking and market-making. The Asset Management division manages specialist funds, with a particular focus on venture capital, real estate and alternative asset classes. In addition, the Group conducts principal finance activities using its own balance sheet.

From offices in Guernsey, London, Liverpool, Edinburgh and Berlin we undertake a broad range of investment services, including:

Equity Capital Markets

- specialist sales to, and research for, institutions in selected sectors;
- corporate finance advice, including fund-raising, sponsorship on the London Stock Exchange, acting as nomad on AIM, takeovers and mergers;
- smaller company market-making. Shore Capital makes markets in approximately 1,250 stocks and is the second largest market-maker on AIM by volume of trades and third largest by value.

Asset Management

- growth capital, both quoted and unquoted, including pre-IPO finance;
- residential, mixed use and commercial property in Germany;
- specialist equity long/short hedge fund;
- structured vehicle investing in UK hotel property;
- innovative venture capital trusts ("VCTs") providing mezzanine capital to solid companies;
- aggregate funds under management are currently approximately £1.2 billion.

Group overview

Shore Capital Group is independently owned with its management as substantial shareholders. Its shares are listed on the AIM. Shore Capital Stockbrokers Limited, Shore Capital and Corporate Limited and Shore Capital Limited are all authorised and regulated by the Financial Services Authority and Shore Capital Stockbrokers Limited is also a member of the London Stock Exchange.

The Group was founded in 1985 and has become one of London's leading independent investment groups. Since inception we have had a close affinity with entrepreneurial clients, whether individuals or businesses, and in investing in entrepreneurial businesses.

The emphasis throughout the Group is on a professional and personalised service and we seek to offer our expertise both responsively and pro-actively. We believe that our greatest asset is the experience, vigour and commitment of our people. Our management and employees own a significant proportion of the business, and are committed to success.

We pride ourselves on our network of clients, institutions, companies and high net worth individuals including entrepreneurs, and on our research capability in the industry sectors where we are expert. Our market-making operation has established a reputation within the broking and institutional community for offering a pro-active and responsive service.

Our Services – an overview

Every Shore Capital client receives a pro-active, dedicated service designed to grow and develop according to changes in his or her priorities and shifts in market conditions. Innovation and creativity are key.

Shore Capital offers a full range of complementary services as follows:

Equity Capital Markets

Institutional stockbroking and market-making

- highly ranked research-based institutional stockbroking, focusing on selected sectors where we have strong research expertise, corporate clients, fast growing companies and special situations;
- research coverage in retailing and consumer goods including general retailing, food retailing and food manufacturing, finance including banks, specialty finance and insurance, pharmaceuticals, bio-technology and life sciences, leisure, construction, property, support services, information technology software and hardware, mining and oil and gas, and overall investment strategy;
- secure and efficient settlement and custody arrangements through Pershing Securities, part of the Bank of New York Mellon Corporation group;
- highly competitive and client-orientated market-making in a broad range of smaller UK companies, listed on either the Official List or AIM. In all we currently cover approximately 1,250 stocks with electronic links enabling automatic execution to a wide range of retail stockbrokers through direct links and third party networks.

Corporate finance advice and deal structuring

- a full range of advisory and transaction services from a highly committed team;
- initial public offerings ("IPOs"), secondary placings and rights offerings;
- mergers and acquisitions, including Takeover Code offers and capital restructurings;
- structuring and arranging private equity transactions;
- strategic and day to day public company advice and support;
- specialist expertise in the particular requirements of medium and small cap companies;
- specialist expertise in sectors including mining and oil and gas, retail, property, housebuilding, leisure, technology, software and media.

Private Client Stockbroking

- stockbroking services, including ISA accounts, for active, often entrepreneurial, private investors on an advisory basis;
- specialist trading services designed for expert investors;
- personalised service and investment advice.

Asset Management

Venture capital

- eight Puma VCTs established between 2005-12. Focus on providing mezzanine finance to growing businesses on attractive terms;
- have raised over £100m in total;
- adding another dimension to our commitment to developing companies;
- specialist fund, St Peter Port, dedicated to development capital opportunities, pre-IPO and other defined exit investments;
- investing in companies with the potential for rapid growth, in both the 'old' and 'new' economies;
- providing funding and management advice to companies preparing to float in the future.

Real estate

- commercial property fund raised in 2002 to invest £125m in UK property. Last properties sold in 2006 and fund has been fully realised. Delivered IRR of 39 per cent p.a;
- established a specialist vehicle in 2004 to acquire portfolios of UK regional hotels. Puma Hotels now owns and operates 20 major hotel properties under the Paramount brand;
- launched Puma Brandenburg in 2006 to buy commercial, residential and mixed use property in Germany.

Hedge Funds

- track record of consistent performance with own portfolio of hedge funds;
- launched Puma Sphera in December 2006, specialist equity long/short fund.

Shore Capital International

We have an office in Berlin to provide asset management services and investment banking in Germany and Eastern Europe. The team includes property specialists and we intend to use the office to offer access to the London capital markets to German and other Continental European countries.

Principal Finance

Spectrum Investments Limited ("Spectrum")

Together with other investors, we have formed a new company, Spectrum, which has acquired a controlling interest (58 per cent) in DBD Deutsche Breitband Dienste GmbH ("DBD"), a German telecoms business. Shore Capital has a majority interest in Spectrum (51 per cent).

DBD holds microwave radio spectrum licences with coverage across Germany which it acquired in licence auctions and has established an extensive national network of towers, transmitters and control equipment. Spectrum plans to exploit Israeli-developed radio technology to broaden the use of the radio frequencies licensed. The aim is to provide services which would enable mobile operators to supply 4G data services to their customers more efficiently and reliably.

Chairman's Statement

Introduction

2011 proved to be one of the most challenging years for our industry since the establishment of our business in 1985. Despite this tough backdrop, our diversified business continued to demonstrate considerable resilience, achieving a profit before tax from our operating businesses of £5.4m (2010: £10.2m).

After a good start to the year, corporate activity levels waned in the third quarter amid Eurozone fears and poor IPO market conditions. However, our Equity Capital Markets ("ECM") division achieved a very creditable performance for the full year, adding 18 new mandates to its list of retained corporate clients and handling 9 fundraisings in the natural resources sector alone. Market making, specialist research and corporate broking all contributed to one of the most resilient performances in the sector.

Other highlights of the year included the acquisition of a 51% controlling stake in Spectrum Investments Limited ("Spectrum"), which acquired a 58 per cent interest in DBD Deutsche Breitband Dienste GmbH ("DBD"). The investment in this German telecoms business builds further upon our existing presence in Germany, where we manage a substantial property portfolio.

Having used 2011 to focus our operating businesses on areas where we have strong market niches, we have closed those activities which we consider to be sub-scale, namely private client discretionary management and our fund of hedge funds.

Our statutory results for the year disappointingly show a loss before tax of £0.9m due to a combination of a loss of £4.8m on our investment in Puma Hotels and a loss of £1.3m as a result of the accounting requirement to consolidate in full our investment in Spectrum/DBD.

Financial Review

Table 1 (opposite) gives an analysis of the results of the group on a like-for-like basis for the current and comparative years, split between the results of the operating businesses and movements in the value of investments held on our balance sheet. It is pro forma as it excludes the income and expenditure relating to Spectrum and DBD in 2011 and the income and expenditure of Puma Brandenburg in 2010. 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 2 (overleaf) takes the total from Table 1 and shows the effect of consolidating the income and expenditure relating to Spectrum and DBD since their acquisition. We own an economic interest of 51% in Spectrum and accordingly the balance of the loss before tax is not attributable to our shareholders.

Income and Expenditure

The Group excluding Spectrum/DBD

Revenue from operating businesses declined by 13.5 per cent to £32.3m (2010: £37.3m), reflecting a highly resilient performance in an extremely challenging market.

Including the net loss of £5.0m from balance sheet holdings, total revenue for the Group was £27.2m (2010: £35.5m). Last November we issued an announcement to alert our investors to the possibility of a substantial reduction in the value of our investment in Puma Hotels ("PHP"), and £4.8m of the loss from balance sheet holdings was attributable to this. As at 31 December 2011, our investment in PHP was valued at £450,000.

Administrative expenses were slightly down on the prior year at £26.5m (2010: £26.8m) providing an operating profit from our operating businesses of £5.8m (2010: £10.6m).

Interest income was £0.3m (2010: £0.3m), whilst finance costs were £0.6m (2010: £0.6m) resulting in profit before tax from operations of £5.4m (2010: £10.2m). The net margin before tax from operations was 16.8 per cent (2010: 27.3 per cent). Including the net loss from balance sheet holdings, the profit before tax was £0.4m (2010: £8.4m).

Revenue from ECM was £22.5m (2010: £26.3m) with a net margin of 22.3 per cent (2010: 29.1 per cent). Revenue from Asset Management was £8.6m (2010: £10.0m) with a net margin of 26.0 per cent (2010: 41.4 per cent).

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 is £1.3m. This has offset the profit before tax of the rest of the group and has led to a reported loss before tax of £0.9m (2010: profit of £8.4m).

Contribution from PBL

In the prior year, Puma Brandenburg generated £1.0m after tax in the period during which it was part of the Group. As a consequence of the de-merger we have presented, in accordance with accounting rules, the contribution from Puma Brandenburg separately from the continuing operations of the Group.

Basic Earnings per Share

Including the effects of Spectrum/DBD, the Group generated losses per share of 0.45p (2010: earnings of 1.83p).

Comprehensive Earnings per Share

On a Comprehensive basis, the group generated a loss of 0.89p per share (2010: earnings of 2.00p).

Staff Costs

Staff costs, including incentive costs, were 43.9 per cent of operating revenue (2010: 40.1 per cent). For 2011, operating revenue excludes revenue from Spectrum and DBD, and for 2010 it excludes revenue from PBL as it was de-merged.

Liquidity

We extended our medium term evergreen bank facility by one year so that it now runs to June 2014 with a minimum two year notice period. The facility size is £20m, of which £15m is committed and was drawn down at the year end. Separately, our £20m working capital facility (which was unutilised at the year end) was also extended for a further year.

As at the balance sheet date, available liquidity was £50.5m (2010: £47.6m), comprising £47.3m (2010: £44.2m) of cash and £3.2m (2010: £3.4m) of gilts and bonds. This demonstrates the Group's flexibility to undertake a range of transactions as opportunities arise.

Share Buy-backs and Cancellations

During the year, we bought back and cancelled 3,638,549 shares at a cost of £946,000 in aggregate, equating to an average price of 26.0 pence per share.

Balance Sheet

Our balance sheet remains strong. Total equity at the year end was £65.4m (2010: £69.8m). The movement comprised the comprehensive loss for the year of £2.0m, dividends paid of £3.7m (including those to minority interests), and £0.9m which the Group spent in the year buying back its own shares, against which there was an increase of £2.3m from the investment by the non controlling interests in Spectrum.

At the year end we held £3.2m of gilts and bonds, £1.2m net in quoted equities and £0.7m net in the Lily Partnership.

Table 1: Analysis of the Pro forma Unaudited Consolidated Comprehensive Income Statement (excluding Spectrum and DBD for 2011 and Puma Brandenburg for 2010)

	Operating Businesses 2011 £'000	Operating Businesses 2010 £'000	Balance sheet holdings 2011 £'000	Balance sheet holdings 2010 £'000	Total 2011 £'000	Total 2010 £'000
Revenue	32,261	37,308	(5,037)	(1,825)	27,224	35,483
Administrative expenditure	(26,488)	(26,755)	–	–	(26,488)	(26,755)
Operating profit/(loss)	5,773	10,553	(5,037)	(1,825)	736	8,728
Interest income	283	284	–	–	283	284
Finance costs	(642)	(643)	–	–	(642)	(643)
	(359)	(359)	–	–	(359)	(359)
Profit/(loss) before taxation	5,414	10,194	(5,037)	(1,825)	377	8,369
(Losses)/gains recognised in Statement of Comprehensive Income	–	–	(1,064)	385	(1,064)	385
Other amounts recognised in Statement of Comprehensive Income	46	41	–	–	46	41
	5,460	10,235	(6,101)	(1,440)	(641)	8,795
Comprehensive taxation	(1,508)	(2,703)	1,280	735	(228)	(1,968)
Comprehensive (loss)/profit for the year after taxation	3,952	7,532	(4,821)	(705)	(869)	6,827
Attributable to:						
Equity holders of the parent	3,261	5,634	(4,821)	(705)	(1,560)	4,929
Non controlling interests	691	1,898	–	–	691	1,898
	3,952	7,532	(4,821)	(705)	(869)	6,827
Comprehensive (loss)/earnings per share						
Basic	1.34p	2.29p	(1.98p)	(0.29p)	(0.64p)	2.00p
Diluted	1.32p	2.21p	(1.95p)	(0.28p)	(0.63p)	1.93p

Table 2: Analysis of the Unaudited Consolidated Comprehensive Income Statement (including Spectrum and DBD for 2011, and excluding Puma Brandenburg for 2010)

	Total excluding Spectrum/ DBD 2011 £'000	Total excluding Spectrum/ DBD 2010 £'000	Spectrum/ DBD 2011 £'000	Spectrum/ DBD 2010 £'000	Total 2011 £'000	Total 2010 £'000
Revenue	27,224	35,483	2,289	–	29,513	35,483
Administrative expenditure	(26,488)	(26,755)	(3,595)	–	(30,083)	(26,755)
Operating (loss)/profit	736	8,728	(1,306)	–	(570)	8,728
Interest income	283	284	5	–	288	284
Finance costs	(642)	(643)	–	–	(642)	(643)
Negative goodwill on acquisition of DBD	–	–	49	–	49	–
	(359)	(359)	54	–	(305)	(359)
(Loss)/profit before taxation	377	8,369	(1,252)	–	(875)	8,369
(Losses)/gains recognised in Statement of Comprehensive Income	(1,064)	385	–	–	(1,064)	385
Other amounts recognised in Statement of Comprehensive Income	46	41	111	–	157	41
	(641)	8,795	(1,141)	–	(1,782)	8,795
Comprehensive taxation	(228)	(1,968)	–	–	(228)	(1,968)
Comprehensive (loss)/profit for the year after taxation	(869)	6,827	(1,141)	–	(2,010)	6,827
Attributable to:						
Equity holders of the parent	(1,560)	4,929	(599)	–	(2,159)	4,929
Non controlling interests	691	1,898	(542)	–	149	1,898
	(869)	6,827	(1,141)	–	(2,010)	6,827
Comprehensive (loss)/ earnings per share						
Basic	(0.64p)	2.00p	(0.25p)	–	(0.89p)	2.00p
Diluted	(0.63p)	1.93p	(0.24p)	–	(0.87p)	1.93p

After allowing for £15.0m of borrowings on the Group's bank facilities, net cash was £32.3m. There were £8.4m of holdings in the various Puma Funds and £1.4m in other holdings, all of which were unquoted, and (on a gross basis, before allowing for non controlling interests) £4.7m of assets in Spectrum. The remainder of the balance sheet was £13.5m net, which includes £17.0m of net market debtors in our stockbroking subsidiary less various accruals.

Net Asset Value per Share

Net asset value per share at the year end was 24.2p (2010: 26.2p).

Dividend

We propose a final dividend of 0.25p per share (2010: 0.625p). In addition to the interim dividend of 0.25p (2010: 0.25p) per share, this gives a total dividend of 0.50p per share (2010: 0.875p per share). The dividend will be paid on Thursday 3 May, 2012 to shareholders on the register as at Friday 20 April, 2012.

Last year I wrote that the dividend policy would be reviewed by the Directors in light of the changing fiscal environment, and we shall continue to keep this under review. Given the changes to the rate of income tax announced in the recent UK budget, it is the Board's current intention not to declare an interim dividend for 2012, but to declare a final dividend to be paid in April 2013.

Operating Review

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

Equity Capital Markets ("ECM")

Overview

In ECM we provide research in selected UK sectors covering c.200 companies, broking for institutional and professional clients, market-making in c.1,250 UK stocks, with a particular focus on the AIM segment, and corporate finance for mid and small cap companies.

Following on from its strong performance in the first half the division had a resilient performance in the second half trading profitably in the most challenging of environments and achieving a profit before tax for the year of £5.0m (2010: £7.6m). 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 believed to be a key strength in the current trading environment.

Our natural resource franchise continued to grow and we now have 19 clients which is an increase of 10 during the second half. Overall we are now retained adviser to some 60 companies having added a further 3 clients since the start of 2012.

We saw strong interest in our equity income product that was introduced in the second half of 2011 and look forward to further progress.

Since the year end we have added three senior, experienced individuals to our sales team providing added breadth to our core UK distribution and also broadening our reach to (Swiss) Private banks and the Nordic region.

We floated Sovereign Mines of Africa plc on AIM in July 2011.

Market-making

After a very strong first half our market-making team had to contend with a back drop of fragile, volatile and much reduced volumes in the second half of the year. However, we are pleased to report that the team performed well, although at a lower level of profitably than in the first half. We continue to benefit from a relatively low inventory and tight cost structure, and this performance again demonstrates the strength and robustness of our franchise. Since the start of 2012 we have seen a recovery in volumes in the AIM and smaller companies segment. Any continuation of such trend will benefit the business.

We deal directly with the major retail brokers as a Retail Service Provider through a broad range of electronic links and with the institutions active in small cap stocks. London Stock Exchange statistics show us to be the third largest market maker by number of stocks covered, second largest on AIM by volume of trades and third largest by value.

Research and Sales

2011 saw a continuation of the difficult market conditions seen in 2010 as volumes across the UK market declined.

Market participants continued to grapple with the combination of an uncertain economic outlook and the knock on effect from regulatory changes which lessened trading activities.

Despite this difficult back drop, the strong and growing positive reputation of Shore Capital's equity research and distribution capabilities came to the fore in these prolonged challenging market conditions. An experienced, settled and expanding team grew market share through its close relationships with their clients; relationships that were also reflected in an excellent measure in the Thomson Reuters Extel survey, which positioned Shore Capital in the top ten for UK Small & Mid Cap research.

Our expanding presence in the market is also reflected in the many road shows and institutional investor events that we stage, often for FTSE-100 companies, and our high profile in leading financial journals. In addition to robust business flows, whereby we gained market share, our high quality research, distribution and execution also played a key role in the further development of our corporate client list.

Corporate Finance

Our corporate finance team had a busy year in 2011 completing several notable transactions including five admissions, two takeovers, eleven placings and a number of other transactions. The admissions involved companies in a number of sectors including Clontarf (Oil & Gas Exploration), Beale (Department Stores) and New World Oil & Gas (Investing Company in Oil & Gas) in the first half of the year and Sovereign Mines of Africa (Gold Exploration Company) and Inspired Energy (Provider of Energy Purchasing and Energy Consultancy Services) in the second half of the year. We also acted for OpSec Security Group on its takeover by Investcorp and for a consortium of major banks on their offer for Cattles.

A starter-home residential project in Mirfield, West Yorkshire – one of various investments by the Puma VCTs.

The team also achieved continued success in growing its retained client list adding 18 new clients in the period (excluding new clients floated as highlighted above) including Cranswick, a FTSE 250 company. We are now retained adviser to some 60 companies having added a further 3 clients since the period end.

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

Since the year end, we have concluded a further fundraising for New World Oil & Gas raising £8.5 million, acted as broker for Tangiers Petroleum in relation to its admission on AIM and advised Bisichi Mining in relation to a disposal. The stronger market in resource related stocks continues and this together with the other marketing initiatives, have generated a healthier pipeline for 2012.

Alternative Asset Class Fund Management and Principal Finance

Overview

The revenue of our alternative asset class fund management business fell 14 per cent compared to 2010, primarily because of changes in the fee arrangements for Puma Hotels. The Board took the decision to close two sub-scale activities, namely the discretionary investment management service for private clients and the hedge fund of funds to focus on areas where we have strong market niches. This will have the effect of reducing funds under management by c.£90m. We believe that the asset management business is well-positioned to grow organically by focusing on the activities in which it has critical mass.

Fund performance

The table opposite summarises the performance of the various funds we run, both absolute and relative return, for the calendar year 2011 where applicable and since inception.

Funds Under Management

Funds under management as at 31 December 2011 were £1.21 billion ($1.86 billion), compared to the £1.31 billion ($2.06 billion) at 31 December 2010.

Venture Capital

Puma Venture Capital Trusts ("VCTs")

To date we have successfully launched seven Puma VCTs and are currently raising Puma VCT 8 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 finding it hard to raise finance on attractive terms from banks. They are each limited-life vehicles, aiming to distribute to their investors the initial capital and returns after five years. 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 3p of assets yet to distribute and are the top performing VCTs in their limited-life peer group. In accordance with the plans set out in their original prospectus, they are now being wound up.

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 their 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.

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

St Peter Port Capital ("St Peter Port")

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 investee companies and had a NAV per share of 105.35p after payment of an inaugural dividend of 3p per share and a special dividend of 2p per share. The reduction in NAV over the year of 7.0% was a particularly resilient performance in the face of another extremely distressed period for small cap and illiquid securities.

St Peter Port's portfolio is weighted towards stocks exposed to commodities (oil and gas, mining and resources). The climate, both in the UK and in other relevant markets such as Canada, is currently conducive to listings of these kinds of stocks and as a result St Peter Port has benefited. It has had several significant successes including a very large gain from Brazilian oil explorer HRT Participacoes em Petroleo ("HRT"), where it generated a gain of £20.7m from an initial investment of $5.0m.

Real Estate

Puma Brandenburg Limited ("PBL")

On 13 February 2012, Puma Brandenburg Holdings Limited ("PBHL") amalgamated with its subsidiary PBL to achieve a simplified corporate structure. The amalgamated entity, PBL, for which Shore Capital acts as the property investment adviser, is no longer listed. Shore Capital Stockbrokers Limited intends to continue to provide an over-the-counter matched bargain service for holders of the new PBL shares wishing to trade their shareholdings.

PBHL reported solid results for the 6 months ended 30 September 2011 with a profit after tax of €3.4m generated from revenues of €16.4m. A number of rent increases took effect in October across the Berlin residential portfolio and irrecoverable costs have been kept low due to fewer repairs and a lower cost associated with flat refurbishment. The demand for apartments at Mendelsohn Quartier in Berlin remains strong and sales generated €1.7m of cashflow in the 6 month period.

Significant progress was also made on extending debt maturity within PBL's various subsidiaries. An extension of the "Barrel" portfolio debt was agreed in November for an additional two years,

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

Absolute Return Products	Inception Date	Asset type	Performance in 2011 %	IRR to Date % p.a.
Puma Absolute Return Fund	May 2003	Fund of hedge funds	(7.0)	4.6
Puma VCTs I and II(1)	April/May 2005	VCT	(5.7)	0.7/11.7(3) pre/post tax
Puma VCTs III and IV(1)	April/May 2006	VCT	(4.9)	(3.4)/7.3(3) pre/post tax
Puma VCT V	April/May 2008	VCT	(1.2)	1.7/12.3(3) pre/post tax
Puma High Income VCT	April/May 2010	VCT	(4.0)	(2.8)/18.0(3) pre/post tax
Puma VCT VII	April/May 2011	VCT	(4.6)	(6.1)/56.8(3) pre/post tax
Puma Sphera	Dec 2006	Equity long/short	(8.1)	10.0
Puma Hotels plc(2)	July 2004	Hotels	(4.0)	10.5
St Peter Port Capital(2)	April 2007	Growth Capital	(7.0)	2.4

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

until August 2014, with an option to extend for a further two years. The portfolio holds the Hyatt Regency Hotel in Cologne, an Ibis hotel in Nuremberg and two other smaller assets. During this period, the Company also secured an extension option for an additional two years to July 2014 on the Lidl portfolio senior debt. PBL also completed the drawdown of a new €2 million loan facility with Landesbank Berlin AG on part of the Mendelsohn Quartier Portfolio.

Germany's economy continues to demonstrate a comparatively robust and resilient position and investor sentiment towards the German real estate market has increased with investment levels in 2011 hitting €23.5bn, 20% up on 2010. Confidence has particularly improved in the Berlin residential market.

The team continues to actively manage the fundamentals of the portfolio to assist PBL in meeting its objective of delivering long term value.

Puma Hotels ("PHP")

PHP announced on 3 April 2012 that it had signed a business transfer agreement providing for the early termination of leases with Barceló Corporación Empresarial S.A. ("BCE") and various UK subsidiary undertakings of BCE (together "the BCE Entities"). This agreement relates to the leases of the hotels owned by PHP ("the Leases") which are held by the BCE Entities.

The agreement with BCE and the BCE Entities, subject to certain conditions being met, provides for the termination of the Leases on 25 April 2012. BCE will pay on the completion date to PHP the net sum of £20.25m (excluding VAT) in respect of the early termination of the Leases. There will also be a completion adjustment payment made to PHP on completion to take account of various working capital apportionments.

The agreement also provides for an orderly handover of the operations of the hotels from the BCE Entities to PHP. Prior to the grant of the Leases in 2007, PHP itself operated the hotels through the head office infrastructure and team which it established in Hinckley and that head office will transfer back to PHP upon completion of the agreement.

In conjunction with the negotiation of the agreement with BCE, PHP has negotiated with its bankers, Irish Bank Resolution Corporation Limited, an option to extend its current debt facility until 31 December 2013, subject to meeting certain conditions.

Shore Capital will continue to provide asset management services to PHP. PHP has also appointed Chardon Management Ltd ("Chardon") to assist in the management of the hotels. Chardon is a leading independent UK hotel management company working on behalf of numerous hotel owners and investment groups. It currently manages 33 hotels, across the UK, with 3 new openings scheduled in Glasgow, Windsor and Southend this year.

PHP intends to revive its Paramount Hotels brand as part of a strategy to focus on the strengths of its hotels in their local and regional markets. It is intended that a full public re-launch of the Paramount brand will be made following the successful handover of the hotels from the BCE Entities.

Hedge Funds

Puma Sphera

Asset markets were highly volatile in 2011, impacted by a range of events including social uprisings in several Arab countries and the re-emergence of the European debt crisis. Puma Sphera had a difficult year, returning -8.1% with a volatility of 5.3%. This compares with a return and volatility for the Tel Aviv Stock Exchange of -20.1% and 11.8% respectively. Nevertheless, Puma Sphera's investment strategy remains robust and its long term track record highly attractive; with an IRR since inception of 10% compared with 2.3% for the index.

Puma Absolute Return Fund ("PARF") and Private Client Investment Management

In 2011 PARF had a resilient performance in the face of volatile markets. Over the year it returned -7.03% per cent, which compared to -6.21% per cent for the BarclayHedge Fund of Hedge Funds Index (the relevant benchmark). In light of the size of PARF, which at the year end had a net asset value of c.$14m, Shore Capital advised the Board of PARF that it considered PARF to be sub-scale and recommended that it be closed. The Board of PARF has since determined to liquidate the portfolio and return the proceeds to investors. It is anticipated that cash will be returned to shareholders on or about 30 April 2012 and that thereafter PARF will be liquidated.

Following the year end, the Board of Shore Capital has also taken the decision to cease to provide discretionary investment management services to private clients. The strategic decision was taken despite the division's strong track record because it was considered that the offering was sub-scale and it would be preferable to focus our efforts on building upon our strong record in delivering investment products. Existing clients have been notified and arrangements made for an orderly and efficient transfer of funds under management.

In conjunction with the closure of PARF and the private client discretionary investment management service, Alex Abadie will be stepping down as Chief Executive Officer of the Asset Management division on 30 April 2012. The Board would like to thank Alex for his hard work since joining Shore Capital in 2009. I am pleased to announce that the Board intends to appoint David Kaye, currently Commercial Director and General Counsel of the Group, to the role with effect from 1 May 2012.

Principal Finance

Investment in German Telecoms Business

We completed a new investment of €2.9m to take a controlling interest in Spectrum Investments Limited ("Spectrum"). Spectrum was formed in 2011 to acquire a 58 per cent controlling interest in DBD Deutsche Breitband Dienste GmbH ("DBD"), a German telecoms business. Spectrum plans to exploit Israeli-developed radio technology to broaden the use of the radio frequencies licensed. The aim is to provide services which would enable mobile operators to supply 4G data services to their customers more efficiently and reliably.

As anticipated at the time of the acquisition of DBD, operating expenses have exceeded revenues within DBD. Our share of these losses through our holding in Spectrum resulted in a reduction in basic earnings per share of 0.26p for the period since completion on 13 April 2011. On acquisition of Spectrum's interest in DBD, €3m of new capital was injected into DBD to fund the projected negative cashflow of DBD until the implementation of the business plan results in new sources of revenue from business customers.

Since we acquired DBD, there have been a number of significant market developments in the 3.5GHz band where DBD operates. In particular, this band has now been included in the range of frequencies to be included within the 4G LTE standard, which will be used by the next generation of wireless equipment. Some major manufacturers have adapted their LTE equipment to support 3.5GHz transmission and a number of operators in Asia-Pacific and Europe plan to deploy LTE at 3.5GHz. As a result, customer equipment operating at 3.5GHz is also beginning to be available. These developments demonstrate the potential to exploit the significant commercial opportunity arising from the growth of 4G in Germany. Increased corporate activity is expected to accompany these developments.

Employees and Board Change

I should like to thank our employees for their commitment and hard work during the year. In another volatile year for the investment markets, they are to be congratulated on achieving strong operational profitability in both ECM and Asset Management.

As previously announced, I also welcome to the Board Lynn Bruce, who is a Chartered Accountant (Scotland) having trained at KPMG. She was the CFO of an international wealth management group, Stenham Limited, for 11 years where she was also a member of both their Risk and Audit Committees. Prior to that, she was the CFO for The Leasing Corporation plc and Financial Controller at AT&T Capital Europe. At the same time, Chris Cochrane stepped down from the Board and I would like to thank him for his contribution to Shore Capital.

Current Trading and Prospects

Activity levels so far in 2012 have picked up well from the quieter months of last year's second half but are still behind the comparable period last year. Our ECM division has started 2012 with a significantly expanded corporate client base with more AIM advisory mandates won than any of its competitors in the last quarter of 2011.

Within the Asset Management division the launch of Puma VCT8 is receiving a warm reception, building on our excellent track record in the VCT arena.

Our German telecoms investment, Spectrum, held within the Principal Finance division represents an excellent medium term capital growth prospect while we have taken steps to limit its short term cash burn in its current phase of development.

The Board will continue to focus on the development of the Group's diverse niches of expertise with the aim of creating meaningful upside for shareholders.

Howard Shore
Executive Chairman

4 April 2012

Board of Directors, Key and Senior Management

Board of Directors

Howard Shore
Executive Chairman

Howard Shore founded Shore Capital in 1985. He began his career in private client discretionary fund management with Grieveson Grant & Co (later part of Dresdner Kleinwort Wasserstein). After obtaining a degree in Economics from Cambridge, he worked as a financial futures broker when LIFFE was being established. As Executive Chairman he is responsible for the strategy of the Group. He is also the Chairman of Puma Hotels plc, a director of Puma Brandenburg Holdings Limited and of Spectrum Investments Limited.

Dr Zvi Marom
Non-executive Director

Dr Marom is founder and CEO of BATM Advanced Communications Limited. A former first lieutenant in the Israeli Navy, he graduated first (with excellence) in electronics from the Naval Academy and first (with excellence) from the Advanced Naval Command Course. He has a post-graduate degree in medicine from the Sackler School of Medicine, Israel and an MSc in industrial electronics. Dr Marom is on the boards of several national and international academic committees for computing and communications. He has close links with Governmental bodies funding research for Israeli high tech companies.

He is a member of the Audit Committee and the Remuneration Committee.

James Rosenwald III
Non-executive Director

James Rosenwald is a co-founder and the managing partner of Dalton Investments, LLC, an asset management company. He has more than twenty years experience of investing in the Pacific Rim. He formerly co-managed Rosenwald, Roditi & Company Ltd. which he founded in 1992 with Nicholas Roditi. James advised a number of Soros Group funds between 1992 and 1998. He commenced his investment career with the Grace Family of the United States at their securities firm Sterling Grace & Co. He is a CFA charter holder and a director of numerous investment funds. He is also a member of the Los Angeles Society of Financial Analysts and the CFA Institute. In addition to securities investments, James has invested in real estate since 1997. He co-founded Beach Front Properties in California in February 1997, Grand River Properties in Shanghai in June 2003 and Dalton REIT 1 GmbH & Co. KG, which in 2005 acquired three investment properties in Berlin. James holds an MBA from New York University and a BA degree from Vassar College. He is a member of the Audit Committee and is Chairman of the Remuneration Committee.

Lynn Bruce
Director

Lynn Bruce is a Chartered Accountant (Scotland) having trained at KPMG. She was the CFO of an international wealth management group, Stenham Limited, for 11 years where she was also a member of both their Risk and Audit Committees. Prior to that she was the CFO for The Leasing Corporation plc and Financial Controller at AT&T Capital Europe.

Key Management

Michael van Messel
Head of Finance and Compliance

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

David Kaye
Head of Commercial and Legal

David Kaye graduated from Oxford University with a degree in law and was called to the Bar in 2000. David practised as a barrister at a leading London set of chambers for five years, specialising in advising on a range of complex commercial legal issues with a particular focus on financial investments and real estate. He joined Shore Capital in January 2006. David, who as Head of Commercial and Legal is responsible for Shore Capital's legal affairs, is primarily involved in the group's asset management and principal finance divisions. David joined the board of Puma Hotels on 31 December 2010.

Senior Management

Simon Fine
Head of Equity Capital Markets

Simon Fine joined Shore Capital in 2002 as Managing Director of Equity Capital Markets, responsible for all aspects of trading and brokerage as well as the integration of related corporate broking activities. He is the former Managing Director and Co-Head of Pan European Equity Cash Trading at Lehman Brothers. Prior to that, Simon spent the previous 14 years at Dresdner Kleinwort Benson, most recently as Head of Pan European Equity Cash Trading – developing its UK operations into one of the leading players in the UK and German equities.

Dr Clive Black
Head of Research

Dr Clive Black is one of the highest ranked analysts covering the UK food & drug retail sector. He has also been rated No.1 for small & mid-cap food retail research and in 2010 was ranked in the top 5 for all analysts in the UK small & mid-cap arena. Clive holds a Ph.D from The Queen's University of Belfast on the Northern Ireland food industry. He followed this to become Head of Food Policy at the NFU in London before joining Northern Foods plc. He moved into equity research with Charterhouse Tilney in Liverpool where he then became Head of Pan-European Retail research when it was acquired by ING Financial Markets. He joined Shore Capital in 2003 as Head of Research.

Rupert Armitage
Head of Stockbroking Sales

Rupert Armitage joined Shore Capital in 1988 after a period working in his family's business. He leads the institutional sales team, but is also qualified as a registered market-maker. He became a director of Shore Capital Stockbrokers in 1995

Thomas Marlinghaus
Shore Capital Germany – Chief Operating Officer

Thomas Marlinghaus graduated with a degree in business administration and began his career at Berliner Bank, where he became an investment manager in the bank's private equity unit. In 1995, he joined a family-owned private equity and management group as managing director. In this role, Thomas acted as the CFO of ProMarkt, at the time Germany's second largest consumer electronic retail chain, which was sold to Kingfisher in 1998. Thomas was also directly responsible for identifying acquisition and disposal opportunities including in real estate. Thomas is Chief Operating Officer of Shore Capital's German team and also responsible for asset management, having helped to establish Shore Capital's Berlin office in 2006.

Eamonn Flanagan
Head of the Liverpool Office

Eamonn Flanagan is one of the UK's top ten stockbroking analysts in the insurance sector, and was rated first for coverage of companies in this sector in the 2010 Extel survey. After a degree in mathematics, he qualified as an actuary with Royal Insurance where he worked for nine years; he is now a Fellow of the Institute of Actuaries. He moved into stockbroking research with Charterhouse Tilney where he was for nine years when it latterly became ING Financial Markets. He joined Shore Capital in 2003 as Head of the Liverpool office.

Dru Danford
Chief Executive of
Shore Capital and Corporate Limited

Dru Danford is an experienced corporate financier who has been with Shore Capital and Corporate Limited since 2004. Dru moved to London after qualifying as a Chartered Accountant (South Africa) in 1998 and spent two further years with Ernst & Young working within in the Investment Management Group. In 1999 Dru moved into investment banking and has since specialised in advising small and mid-cap companies in a wide range of sectors in relation to IPOs, fundraisings, takeovers, acquisitions, disposals and restructurings.

Corporate Governance

General

The Group is committed to the principles of corporate governance contained in the UK Corporate Governance Code, issued by the Financial Reporting Council ('the Code') in relation to matters for which the board is accountable to shareholders.

The Group has applied the principles set out in section 1 of the Code, including both the main principles and the supporting principles, by complying with the Code as reported above. Further explanation of how the principles and supporting principles have been applied is set out below and in the Directors' remuneration report.

In relation to those arrangements which do not comply with the Code (as set out below), these largely arise as a consequence of the size of the Group and of the Board. The Board believes that the arrangements it has in place are appropriate for a group of its size and nature.

Board of Directors

The Board currently comprises two executive and two non-executive directors. It carries ultimate responsibility for the conduct of the business of the Group. The Board maintains full control and direction over appropriate strategic and financial issues through regular meetings and reports to ensure that the Board is supplied with all the information it needs. The Board considers each of the non-executive directors, Dr Zvi Marom and James Rosenwald III, to be independent in character and judgement. Whilst both Dr Zvi Marom and James Rosenwald III own shares in the Company, they each have significant other business interests and activities. The Board as a whole considers their shareholdings in the Company to be an advantage for the shareholders as in addition to their fiduciary duties, their interests are aligned with shareholders generally. The terms and conditions of appointment of the non-executive directors are available for inspection by any person at the Group's registered office and also at the Company's AGM.

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

Howard Shore is Executive Chairman of the Board and also undertakes the function of full-time Chief Executive. In view of the size and nature of the Group, the Board does not consider it in the best interests of the Group to split the roles. The Board has two committees, the Audit Committee and the Remuneration Committee (see below). The Board does not have a Nominations Committee or a senior independent director. This is because with two non-executive directors and a Board of only 4 in total, nominations can be readily handled without a committee by the Board as a whole, whilst the non-executive directors are accessible to shareholders in the event of issues arising.

The Board has an informal annual review process to assess how each of the Directors is performing. The performance of the executive director is reviewed by the Chief Executive against previously agreed objectives and the Chief Executive's performance is in turn appraised by the non-executive directors. Remuneration is directly linked to these reviews and determined by the Remuneration Committee. Remuneration is set at the level required to attract, retain, and motivate high calibre directors and a significant proportion of total remuneration is linked to corporate and individual performance.

The Board of Shore Capital Group Limited met 10 times during 2011. The number of meetings of the Board and the Audit and Remuneration Committees and individual attendance by members is set out in the following table.

	Board	Audit	Remuneration
Total number of meetings in 2011	**10**	**2**	**2**
Number of meetings attended in 2011			
Howard Shore	6	n/a	n/a
Lynn Bruce [1]	4	1	n/a
Dr Zvi Marom	8	2	2
James Rosenwald III	7	2	2
Graham Shore [2]	4	n/a	n/a
Chris Cochrane [3]	6	1	n/a

[1] Lynn Bruce was appointed as a director on 8 July 2011
[2] Graham Shore resigned as a director on 1 April 2011
[3] Chris Cochrane resigned as a director on 8 July 2011

The Board has a formal schedule of matters reserved for its decision and delegates certain matters to committees as set out below. The Board determines the Group's overall strategy; creation, acquisition or disposal of material corporate entities and investments; development and protection of the Group's reputation; public announcements including statutory accounts; significant changes in accounting policy, capital structure and dividend policy, operating plans and review of key performance indicators, resolution of litigation, Group remuneration policy and Board structure, composition and succession.

Audit Committee

The Board has appointed an Audit Committee with written terms of reference. The terms of reference of the Audit Committee are available for inspection by any person at the Group's registered office during normal business hours and for fifteen minutes prior to and during the forthcoming Annual General Meeting. It comprises two non-executive directors, Dr Zvi Marom and James Rosenwald III, together with Lynn Bruce and is chaired by Lynn Bruce. The Audit Committee undertakes a detailed review of the Company's half yearly and annual financial reports, is responsible for reviewing whether the accounting policies are appropriate and for monitoring internal compliance and external audit functions including the cost effectiveness, independence and objectivity of the auditor. The committee meets periodically with the auditor to receive a report on matters arising from their work.

The committee receives a report from the external auditor concerning their internal processes to ensure that the independence and objectivity of the auditors are safeguarded at all times. The committee is satisfied that the safeguards and procedures established by the auditor are sufficient to counter threats or perceived threats to their objectivity.

Remuneration Committee

The Board has appointed a Remuneration Committee which comprises two non executive directors, James Rosenwald III and Dr Zvi Marom, and is chaired by James Rosenwald III. The terms of reference of the Remuneration Committee are available for inspection by any person at the Group's registered office during normal business hours. The Remuneration Committee has given full consideration to Section B of the Best Practice Provisions annexed to the Listing Rules of the UK Listing Authority. The principal function of the Remuneration Committee is to determine the Group's policy on executive remuneration. It makes its decisions in consultation with the Chairman and Chief Executive. No director plays a part in any decision about their own remuneration. The Committee meets periodically when it has proposals to consider and in any event no less than once each year.

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

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 4 to 11, together with the financial position of the group, its liquidity position and borrowing facilities. In addition note 25 to the financial statements includes policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

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 company and the group have 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.

Internal control

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

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

An annual review has been carried out of the effectiveness of the Group's systems of internal financial controls. In addition, the Group has considered the need to introduce a group internal audit function but has decided that it is inappropriate for a Group of this size. It should be noted that many of the activities which would be covered by such a function are already carried out as part of the compliance function.

Relations with shareholders

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

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

Directors' Report

The directors present their annual report and the audited financial statements of the Group for the financial year ended 31 December 2011.

Activities and business review

The main activities of the Group consist of investment banking, including stockbroking, market-making, corporate finance advice, asset management including specialist fund management and principal finance.

A review of the year and future developments is contained in the Chairman's statement on pages 4 to 11. The statement also includes details of the key performance indicators which management use.

Results and dividends

The results for the financial year are set out on page 20. An interim dividend of 0.25p per share (2010: 0.25p) was paid during the year. The directors propose a final dividend of 0.25p per share (2010: 0.625p) making a total for the year of 0.50p per share (2010: 0.875p).

Capital structure and Group re-organisation

Details of the issued share capital, together with details of the movements in the company's issued share capital during the year are shown in note 24 of the financial statements. The company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the company.

There are no restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provision of the Articles of Association. No person has any special rights of control over the company's share capital and all issued shares are fully paid.

Fixed assets

Movements in fixed assets are set out in note 15 to the financial statements.

Risk management

The Group's policies for managing the financial risks arising from its activities, including the use of derivative instruments, are set out in note 25. In addition the Group has policies and procedures in place to mitigate the other risks to which it is exposed, including reputational risk, operational risk and insurance risk. 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.

Directors

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

	Ordinary shares of Nil par value	
	31 December 2011	31 December 2010
Howard Shore	**100,293,700**	100,293,700
Lynn Bruce (appointed 8 July 2011)	**–**	n/a
Dr Zvi Marom	**501,521**	501,521
James Rosenwald III	**2,532,000**	2,532,000
Graham Shore (resigned 1 April 2011)	**n/a**	21,799,161
Chris Cochrane (resigned 8 July 2011)	**n/a**	–

The beneficial interests of the directors in share options over ordinary shares of the company are set out in note 6e to the financial statements.

The company makes qualifying third-party indemnity provisions for the benefit of its directors which are in force at the date of this report.

Charitable

The Group made charitable donations of £161,000 (2010: £115,000) during the year.

Acquisition of the company's own shares

Details of shares repurchased during the year are set out in note 24.

Events after the balance sheet date

Details of events after the balance sheet date are set out in note 27.

Going concern

The Group's liquidity position is set out in note 19 and its borrowing facilities in note 21. In addition, note 25 includes details of policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

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 company and the group have 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.

Environmental policy

The Group aims wherever appropriate to be environmentally conscious. During the year, it recycled a large amount of waste paper and arranged for used printer cartridges and office furniture to be collected for recycling and environmentally sound disposal. It has adopted low energy lighting systems where appropriate.

Major shareholdings

Other than directors, the following shareholders had notified the company of holdings of 3% or more of the shares of the company as at 4 April 2012:

	Ordinary Shares	%
The Mercantile Investment Trust Plc	24,065,543	9.96
G B Shore (direct and beneficial interest)	21,799,161	9.02
Aralon Resources	14,283,000	5.91

Auditor

Each of the persons who is a director at the date of approval of this annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all the steps which they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s249(2) of the Companies (Guernsey) Law, 2008.

Deloitte LLP have expressed their willingness to continue in office. A resolution to re-appoint them as auditor of the Company will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Lynn Bruce
Company Secretary
4 April 2012

Martello Court
Admiral Park
St Peter Port
Guernsey GY1 3HB

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable and regulations.

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs.

The directors are required to prepare Group financial statements for each financial year, in accordance with applicable Guernsey law and those International Financial Reporting Standards (IFRS) as adopted by the European Union, which present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period. In preparing those financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8: *"Accounting Policies, Changes on Accounting Estimates and Errors"* and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company's financial position and financial performance;
- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that its financial statements comply with the Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report
to the Members of Shore Capital Group Limited

We have audited the financial statements of the group for the year ended 31 December 2011 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 27. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 18, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's affairs as at 31 December 2011 and of its loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the the Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Deloitte LLP
Chartered Accountants
Guernsey, Channel Islands

4 April 2012

Consolidated Income Statement

For the year ended 31 December 2011

	Notes	Excluding Spectrum/DBD 2011 £'000	Spectrum/DBD 2011 £'000	Total 2011 £'000	Total 2010 £'000
Revenue	1, 2	27,224	2,289	29,513	35,483
Administrative expenditure		(26,488)	(3,595)	(30,083)	(26,755)
Operating (loss)/profit	3	736	(1,306)	(570)	8,728
Interest income	4	283	5	288	284
Finance costs	5	(642)	–	(642)	(643)
Negative goodwill on acquisition of DBD		–	49	49	–
		(359)	54	(305)	(359)
(Loss)/profit before taxation	2	377	(1,252)	(875)	8,369
Taxation	7	(189)	–	(189)	(1,977)
(Loss)/profit for the year after taxation including negative goodwill but excluding profit from operations being demerged		188	(1,252)	(1,064)	6,392
Profit after tax from PBL		–	–	–	987
Retained (loss)/profit for the year		188	(1,252)	(1,064)	7,379
Attributable to:					
Equity holders of the parent		(452)	(636)	(1,088)	4,520
Non controlling interests		640	(616)	24	1,872
Equity holders of de-merged assets		–	–	–	987
		188	(1,252)	(1,064)	7,379
(Loss)/earnings per share					
Basic	10	(0.19p)	(0.26p)	(0.45p)	1.83p
Diluted	10	(0.18p)	(0.26p)	(0.44p)	1.77p

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	Excluding Spectrum/DBD 2011 £'000	Spectrum/DBD 2011 £'000	Total 2011 £'000	Total 2010 £'000
Retained (loss)/profit after tax for the year		188	(1,252)	(1,064)	7,379
(Losses)/gains on revaluation of available-for-sale investments taken to equity		(1,064)	–	(1,064)	385
Gains/(losses) on cash flow hedges		146	–	146	(3,163)
Income tax thereon		(39)	–	(39)	9
		107	–	107	(3,154)
Exchange difference on translation of foreign operations		(100)	111	11	532
Other comprehensive income/(loss) for the year, net of tax		7	111	118	(2,622)
Total comprehensive (loss)/income for the year, net of tax		(869)	(1,141)	(2,010)	5,142
Attributable to:					
Equity holders of the parent		(1,560)	(599)	(2,159)	4,929
Non controlling interests		691	(542)	149	1,898
Equity holders of de-merged assets		–	–	–	(1,685)
		(869)	(1,141)	(2,010)	5,142
Comprehensive (loss)/earnings per share					
Basic	10	(0.64p)	(0.25p)	(0.89p)	2.00p
Diluted	10	(0.63p)	(0.24p)	(0.87p)	1.93p

Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	2011 £'000	2010 £'000
Non-current assets			
Goodwill	13	381	381
Intangible assets	14	4,251	–
Property, plant & equipment	15	12,516	12,710
Available-for-sale investments	16	4,505	11,167
Deferred tax asset	7	–	340
		21,653	24,598
Current assets			
Bull positions and other holdings at fair value	17	7,048	8,202
Available-for-sale investments	16	450	–
Trade and other receivables	18	42,681	60,759
Tax assets		629	–
Cash and cash equivalents	19	47,305	44,249
		98,113	113,210
Total assets	2	119,766	137,808
Current liabilities			
Bear positions		(786)	(1,343)
Trade and other payables	20	(25,267)	(38,508)
Derivatives		(360)	(806)
Tax liabilities		–	(1,443)
Borrowings	21	(345)	(339)
		(26,758)	(42,439)
Non-current liabilities			
Borrowings	21	(27,264)	(25,424)
Deferred tax liability	7	(279)	–
Provision for liabilities and charges	22	(36)	(172)
		(27,579)	(25,596)
Total liabilities	2	(54,337)	(68,035)
Net assets		65,429	69,773
Capital and reserves			
Called up share capital	24	–	–
Share premium		336	170
Merger reserve		27,198	27,198
Capital redemption reserve		–	–
Own shares	24	–	–
Other reserves		1,187	2,113
Retained earnings		29,867	34,484
Equity attributable to equity holders of the parent		58,588	63,965
Non controlling interest		6,841	5,808
Total equity		65,429	69,773

Approved by the Board of Directors on 4 April 2012. Signed on behalf of the Board of Directors

Lynn Bruce
Director

James Rosenwald
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Share capital £'000	Share Premium account £'000	Merger reserve £'000	Capital redemption reserve £'000	Own shares £'000	Other Reserves £'000	Retained earnings £'000	Non controlling interest £'000	Total £'000
At 1 January 2010	5,590	20,112	–	1,511	(9,070)	2,303	112,552	8,508	141,506
Retained profit for the year	–	–	–	–	–	–	4,520	1,872	6,392
Revaluation of available for sale investments	–	–	–	–	–	385	–	–	385
Credit in relation to share based payments	–	–	–	–	–	161	–	–	161
Foreign currency translation	–	–	–	–	–	–	43	31	74
Deferred tax charge recognised directly in equity	–	–	–	–	–	(731)	–	–	(731)
Valuation change on cash flow hedge	–	–	–	–	–	(28)	–	(5)	(33)
Equity dividends paid	–	–	–	–	–	–	(2,154)	–	(2,154)
Dividends paid to non controlling interests	–	–	–	–	–	–	–	(1,301)	(1,301)
Shares issued before the re-organisation in respect of options exercised	29	230	–	–	55	–	–	–	314
Repurchase/cancellation of own shares	(147)	–	–	147	–	–	(3,419)	–	(3,419)
Changes associated with the demerged assets:									
Profit for the period from PBL	–	–	–	–	–	–	937	50	987
Valuation change on cash flow hedges	–	–	–	–	–	(2,973)	–	(157)	(3,130)
Foreign currency translation	–	–	–	–	–	435	–	23	458
Share issued in subsidiaries to non controlling interests	–	–	–	–	–	–	–	251	251
Changes associated with the corporate re-organisation:	–	–	–	–	–	–	–	–	–
De-merger of PBL	–	–	–	–	–	2,561	(68,976)	(3,518)	(69,933)
Cancellation of own shares	–	–	–	–	9,015	–	(9,015)	–	–
Re-organisation of share capital (net of associated costs)	(5,472)	(20,342)	27,198	(1,658)	–	–	–	–	(274)
Shares issued after the re-organisation in respect of options exercised	–	170	–	–	–	–	–	–	170
Share/participations issued in subsidiaries to non controlling interests	–	–	–	–	–	–	–	150	150
Cancellation of share/participations in subsidiaries	–	–	–	–	–	–	(4)	(96)	(100)
At 31 December 2010	–	170	27,198	–	–	2,113	34,484	5,808	69,773

Consolidated Statement of Changes in Equity continued

For the year ended 31 December 2011

	Share capital £'000	Share Premium account £'000	Merger reserve £'000	Capital redemption reserve £'000	Own shares £'000	Other Reserves £'000	Retained earnings £'000	Non controlling interest £'000	Total £'000
At 1 January 2011	–	170	27,198	–	–	2,113	34,484	5,808	69,773
Retained loss for the year	–	–	–	–	–	–	(1,088)	24	(1,064)
Revaluation of available for sale investments	–	–	–	–	–	(1,064)	–	–	(1,064)
Credit in relation to share based payments	–	–	–	–	–	52	–	–	52
Foreign currency translation	–	–	–	–	–	–	(93)	104	11
Valuation change on cash flow hedge	–	–	–	–	–	86	–	21	107
Equity dividends paid	–	–	–	–	–	–	(2,132)	–	(2,132)
Dividends paid to non controlling interests	–	–	–	–	–	–	–	(1,568)	(1,568)
Shares issued in respect of options exercised	–	166	–	–	–	–	–	–	166
Repurchase/cancellation of own shares	–	–	–	–	–	–	(946)	–	(946)
Deferred tax charge recognised directly in equity	–	–	–	–	–	–	(298)	–	(298)
Investment by non controlling interest in subsidiaries including Spectrum	–	–	–	–	–	–	(60)	2,452	2,392
At 31 December 2011	**–**	**336**	**27,198**	**–**	**–**	**1,187**	**29,867**	**6,841**	**65,429**

Consolidated Cash Flow Statement

For the year ended 31 December 2011

	Notes	2011 £'000	2010 £'000
Cash flows from operating activities			
Operating (loss)/profit		(570)	8,728
Adjustments for:			
Depreciation charges	15	868	921
Share-based payment expense		52	161
Loss on sale of fixed assets		27	–
Other Losses/(Gains) on AFS investments		4,682	(224)
Decrease in provision for National Insurance on options		(136)	(557)
Operating cash flows before movements in working capital		4,923	9,029
Decrease/(Increase) in trade and other receivables		20,104	(26,496)
(Decrease)/Increase in trade and other payables		(18,778)	17,851
Decrease in bear positions		(557)	(1,900)
Decrease in bull positions		1,154	2,794
Cash generated by operations		6,846	1,278
Interest paid		(642)	(643)
Corporation tax paid		(1,979)	(3,385)
Net cash generated/(utilised) by operating activities		4,225	(2,750)
Cash flows from investing activities			
Purchase of fixed assets		(536)	(570)
Sale of fixed assets		11	–
Acquisition of subsidiary net of cash acquired	8	(914)	–
Purchase of additional intangible assets		(295)	–
Purchase of AFS investments		(74)	(451)
Sale of AFS investments		540	–
Purchase of shares issued by PBL and de-merged		–	(4,749)
Interest received		288	284
Net cash utilised by investing activities		(980)	(5,486)
Cash flows from financing activities			
Shares purchased in subsidiary from Non Controlling Interests		–	(100)
Costs of corporate reorganisation		–	(274)
Shares/participations issued to Non Controlling Interests in subsidiaries including Spectrum		2,392	150
Shares issued in respect of exercise of options/share scheme		166	484
Repurchase of shares		(946)	(3,419)
Increase/(decrease) in borrowings		1,659	(339)
Dividends paid to Equity shareholders		(2,132)	(2,154)
Dividends paid to Non Controlling Interests		(1,568)	(1,301)
Net cash utilised by financing activities		(429)	(6,953)
Net increase/(decrease) in cash and cash equivalents		2,816	(15,189)
Effects of exchange rate changes		240	36
Cash and cash equivalents at the beginning of the year	19	44,249	59,402
Cash and cash equivalents at the end of the year	19	47,305	44,249

1. Accounting Policies

Basis of preparation

The annual financial statements of Shore Capital Group Limited (the "Company") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("Adopted IFRS").

Presentation of the financial statements and financial information

The Company was formed on 18 January 2010. On 26 March 2010 it acquired the entire share capital of Shore Capital Group plc. In accordance with merger accounting principles, the comparative period in these financial statements covers the twelve month period to 31 December 2010 including the period prior to the acquisition during which Puma Brandenburg Limited ("PBL") was part of the Group prior to its de-merger.

In accordance with Section 244(5) of the Companies (Guernsey) Law, 2008, the accounts of the parent company are not presented as part of these financial statements.

Adoption of new and revised standards

In 2011, the adoption of the following new and revised Standards and Interpretations has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements.

IAS 32 (amended) *Classification of Rights Issues*	The Amendment clarifies the classification of rights, options and warrants issued to acquire a fixed number of an entity's own non derivative equity instruments.
IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*	The Interpretation addresses divergent accounting by entities issuing equity instruments in order to extinguish all or part of a financial liability (often referred to as "debt for equity swaps").
IFRS 3 *Business Combinations*	IFRS 3 has been amended such that only those non controlling interests which are current ownership interests and which entitle their holders to a proportionate share of net assets upon liquidation can be measured at fair value or the proportionate share of net identifiable assets. Other non controlling interests are measured at fair value, unless another measurement basis is required by IFRS.
IFRS 7 *Financial Instrument: Disclosure*	The amendment clarifies the required level of disclosure around credit risk and collateral held and provides relief from disclosure of renegotiation financial assets. The impact of this amendment has been to reduce the level of disclosure provided on collateral that the entity holds as security on financial assets that are past due or impaired.

Standards in issue but not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 9	*Financial Instruments*
IFRS 10	*Consolidated Financial Statements*
IFRS 11	*Joint Arrangements*
IFRS 12	*Disclosure of Interests in Other Entities*
IFRS 13	*Fair Value Measurement*
IAS 1 (amended)	*Presentation of Items of Other Comprehensive Income*
IAS 12 (amended)	*Deferred Tax: Recovery of Underlying Assets*
IAS 19 (revised)	*Employee Benefits*
IAS 27 (revised)	*Separate Financial Statements*
IAS 28 (revised)	*Investments in Associates and Joint Ventures*

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods, except as follows:

- IFRS 9 will impact both the measurement and disclosure of financial instruments
- IFRS 12 will impact the disclosure of interests the Group has in other entities;
- IFRS 13 will impact the measurement of fair value for certain assets and liabilities as well as the associated disclosures;

The Group has not early adopted any other standard, interpretation or amendment that was issued but is not yet effective.

1. Accounting Policies continued

General information

These financial statements are presented in pounds sterling, this being the currency of the primary economic environment in which the Group operates.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The financial statements are rounded to the nearest thousand (expressed as thousands and with no decimal place – £'000), except where otherwise indicated. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries) made up to 31 December each year. Control is achieved where the company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Non controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non controlling interests consist of the amount of those interests at the date of the original business combination and the non controlling interest's share of changes in equity since the date of the combination.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Taxation

The Company and its subsidiaries are subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the appropriate authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provision required for both current and deferred tax on the basis of professional advice and the nature of any current discussions with the tax authority concerned.

Deferred tax assets

Management judgement is required to determine the amount of deferred tax assets that can be recognised based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. The carrying value of deferred tax assets is set out in note 7.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Fair value of unquoted equity instruments

Where there is no available representative external valuation, judgement is required to determine the most appropriate valuation method for unquoted equity instruments. Further details are set out later in this note 1 and in notes 16, 17 and 25(f).

Share-based payments

The Group measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Judgement is required in determining the most appropriate valuation model for a grant of equity instruments, depending on the terms and conditions of the grant. Management are also required to use judgement in determining the most appropriate inputs to the valuation model. Details of the assumptions and model used are set out in note 6(c).

1. Accounting Policies continued

Judgements and key sources of estimation uncertainty continued

Intangibles

Where there is no available representative external valuation, judgement is required to determine the fair value at each balance sheet date. Where the asset does not currently generate cash flows, the Group estimates the future cash flows discounted to their present values using a pre-tax discount rate.

Revenue

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

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

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

Revenue, including revenue from Stock Exchange transactions, is accounted for at trade/contract date rather than settlement date.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currency translation

The Group's consolidated financial statements are presented in sterling, which is the Group's functional currency. That is the currency of the primary economic environment in which the Group operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the balance sheet date. All differences are taken to the income statement with the exception of differences on foreign currency borrowings accounted for as a hedge of a net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The assets and liabilities of foreign operations are translated into sterling at the rate of exchange prevailing at the balance sheet date and their income statements are translated at average exchange rates for the period. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Pension costs

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

Taxation

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

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

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

1. Accounting Policies continued

Taxation continued

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Share-based payments

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

The Group engages in equity settled share-based payment transactions in respect of services received from certain employees and directors. The fair value of the services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost of the employee services received in respect of the share options granted is recognised in the income statement over the period that the services are received, which is the vesting period, together with a corresponding increase in equity. The fair value of the options granted is determined using the Black-Scholes Option Pricing Model, which takes into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the Group's share price over the life of the option and other relevant factors. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense for the year represents the movement in cumulative expense recognised at the beginning and end of the year.

Employer's National Insurance ("NI") is accrued at the current rate of NI on differences between the market value at the balance sheet date of the shares that would be acquired when the options are exercised and the exercise price of those options.

The dilutive effect of outstanding share options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in note 10).

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.

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.

1. Accounting Policies continued

Goodwill

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

Negative Goodwill

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the income statement.

Intangible assets

Intangible assets purchased are measured initially at purchase cost, unless they are acquired as part of a business combination in which case they are measured initially at fair value which has been calculated on the basis of arm's length transactions.

Where such intangible assets have a remaining life of less than 20 years, they are amortised on a straight line basis over their estimated useful lives.

Where such intangible assets have a remaining life of over 20 years, they are subject to an annual impairment test in accordance with the Group's accounting policy for the treatment of its non-financial assets.

Impairment of goodwill and other non-financial assets

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

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

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

Property, plant & equipment

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

Leasehold premises	–	over the unexpired term of the lease
Fixtures and equipment	–	25-33% per annum
Asset rental	–	4% per annum
Motor vehicles	–	16.7% per annum

Depreciation of an asset commences when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Property and operating leases

Rentals paid under operating leases are charged to income statement evenly over the primary period of the contract.

1. Accounting Policies continued

Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial assets and liabilities at FVTPL

Financial assets and liabilities are classified as at FVTPL where the financial asset or liability is either held for trading or it is designated as at FVTPL. A financial asset or liability is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments which the Group manages together and has a recent actual pattern of short term profit-taking; or
- it is a derivative which is not designated and is effective as a hedging instrument.

Financial instruments which are classified as held for trading through profit or loss comprise bull and bear positions in securities and derivative instruments. Bull and bear positions are valued at closing out prices at the close of business on the balance sheet date, namely bull positions at the bid price and bear positions at the offer price.

Derivatives are initially recognised at the contract value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

A financial asset or liability, other than a financial asset or 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 asset 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; 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 assets and liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset or financial liability.

The Group's financial assets designated as at FVTPL upon initial recognition include positions in quoted and unquoted securities. The valuation technique and assumptions used to fair value these instruments is disclosed within note 16.

AFS investments

Available-for-sale investments are revalued to their fair value with such revaluation being taken directly to equity. Where such investments are in unlisted securities, they are valued by the directors at the most recent available representative arm's length price. Investments in listed securities held as available-for-sale investments are valued by reference to the market price of the shares. They are re-measured to their fair value at each balance sheet date.

Loans and receivables

Trade receivables and other receivables which have fixed or determinable payments which are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

1. Accounting Policies continued

Financial instruments continued

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Impairment of financial assets

At each balance sheet date, the Group reviews whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement.

1. Accounting Policies continued

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

Cash and cash equivalents

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

Trade and other payables

Trade and other payables are measured on initial recognition at fair value, and are subsequently measured at amortised cost.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. An equity instrument is any contract which evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date.

Merger reserve

This reserve comprises the capital reserves acquired by the Company when it acquired the entire share capital of Shore Capital Group plc on 26 March 2010.

Repurchase of share capital (own shares)

Where share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Such shares may either be held as Own Shares (treasury shares) or cancelled. Where own shares are subsequently re-sold from treasury, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

Other reserves

This reserve comprises amounts taken to equity in respect of i) share based payments; ii) deferred tax movements; and iii) revaluations of available for sale investments.

2. Segment Information

Additional analysis of revenue and results is presented in the Chairman's Statement on page 4.

For management purposes, the group is organised into business units based on their services, and has five 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 provides advisory and discretionary fund management services, and manages specialist funds invested in alternative asset classes.
- Central Costs comprises the costs of the group's central management team and structure
- Balance Sheet/Principal Finance comprises investments and other holdings acquired, together with principal finance activities conducted, using our own balance sheet resources.
- Spectrum/DBD comprises the group's investment in a German based telecoms business

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

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

Year ended 31 December 2011	Equity Capital Markets £'000	Asset Management £'000	Central costs £'000	Balance Sheet and Principal Finance £'000	Spectrum/ DBD £'000	Consolidated £'000
Revenue	22,545	8,563	–	(3,884)	2,289	29,513
Results:						
Depreciation	129	180	54	505	–	868
Interest expense	(57)	–	(27)	(558)	–	(642)
Profit/(loss) before tax	5,018	2,224	(725)	(6,140)	(1,252)	(875)
Assets	47,883	5,800	1,765	56,820	7,498	119,766
Liabilities	(22,375)	(1,337)	(1,075)	(25,529)	(4,021)	(54,337)

No material amounts of revenue or profit before tax were generated outside of Europe.

Year ended 31 December 2010	Equity Capital Markets £'000	Asset Management £'000	Central costs £'000	Balance Sheet and Principal Finance £'000	Spectrum/ DBD £'000	Consolidated £'000
Revenue	26,268	9,952	–	(737)	–	35,483
Results:						
Depreciation	127	205	45	544	–	921
Interest expense	(22)	–	(22)	(599)	–	(643)
Profit/(loss) before tax	7,632	4,118	(496)	(2,885)	–	8,369
Assets	63,395	7,467	1,535	65,411	–	137,808
Liabilities	(40,179)	(1,407)	(286)	(26,163)	–	(68,035)

No material amounts of revenue or profit before tax were generated outside of Europe.

3. Operating Profit

	2011 £'000	2010 £'000
Operating profit has been arrived at after charging:		
Depreciation	868	921
Property lease rentals	633	626
Loss on disposal of fixed assets	27	–
Exchange differences, excluding those arising on financial instruments		
– Exchange differences	19	36

4. Interest Income

	2011 £'000	2010 £'000
Bank interest	256	243
Other interest receivable	32	41
	288	284

5. Finance Costs

	2011 £'000	2010 £'000
Interest on overdraft and other finance costs	623	625
Other interest payable	19	18
	642	643

6. Employees and Directors

a) Employee numbers

The average number of employees, including Executive Directors, employed by the Group during the financial year was:

	2011 No.	2010 No.
Equity Capital Markets – Securities	70	67
– Corporate Advisory	14	13
Asset Management	38	38
	122	118

b) The costs incurred in respect of these employees comprise

	2011 £'000	2010 £'000
Salaries and commission	12,111	13,188
Social security costs	1,237	798
Pension costs	130	204
	13,478	14,190

6. Employees and Directors continued

c) Employee Share Option Plan

The Group maintains a Share Option Plan (the "Plan") under which present and future employees of the Group may be granted options to subscribe for new share capital of the Group. The Plan is used to attract and retain high-calibre employees to continue to develop and expand the business of the Group. Such options are granted by the Board at a price no less than the average quoted market price of the company's share on the date of grant. Options granted under the Plan are subject to vesting periods which are based on continuing service. Thereafter the options may be exercised for the rest of their 10 year life without further test. Options are forfeited if the employee chooses to leave the Group before the options vest. If an employee holding vested options leaves the group, the options held must be exercised within 6 months of the date of leaving. As at 31 December 2011, there were 19,250,098 (2010: 20,077,371) options in issue under the Plan that were exercisable at prices ranging from 11p to 29p. Details of the share options outstanding during the year are as follows:

	2011		2010	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at beginning of year	20,077,371	19.7p	22,724,348	19.3p
Granted during the year	–	n/a	600,000	28.5p
Forfeited during the year	–	n/a	(380,000)	25.0p
Exercised during the year	(827,273)	20.0p	(2,866,977)	15.0p
Outstanding at the end of the year	19,250,098	19.7p	20,077,371	19.7p
Exercisable at the end of the period	17,200,098		15,927,371	

At the end of January 2012, options over 3,750,000 shares were sold back to the company and cancelled.

The options outstanding at 31 December 2011 had a weighted average remaining contractual life of 5 years 1 month (2010: 6 years 1 month).

No options were granted in 2011. Using a Black-Scholes option pricing model, the aggregate of the estimated fair value of the options granted in 2010 was £41,000. The inputs into the Black-Scholes model were as follows:

	2011	2010
Weighted average exercise price	n/a	28.5p
Weighted average volatility	n/a	0.2839
Expected life	n/a	10 years
Weighted average risk-free rate	n/a	0.50%
Expected dividend yields	n/a	1.00%

Expected volatility was determined by calculating the historical volatility of the group's share price over the previous 12 months.

In 2011, the Group recognised total expenses of £52,000 (2010: £160,000) related to equity-settled share-based payment transactions.

d) Emoluments of the Directors of the Company

2011	Gross salary £'000	Bonus, commission and other income £'000	Pension Contributions £'000	Benefits £'000	Total £'000
Howard Shore	200	430	–	38	668
Lynn Bruce	23	–	–	–	23
Dr Zvi Marom	40	–	–	–	40
James Rosenwald	40	–	–	–	40
	303	430	–	38	771

6. Employees and Directors continued

d) Emoluments of the Directors of the Company continued

2010	Gross salary £'000	Bonus, commission and other income £'000	Pension Contributions £'000	Benefits £'000	Total £'000
Howard Shore	200	–	–	36	236
Graham Shore	150	180	10	32	372
Chris Cochrane	15	–	–	–	15
Dr Zvi Marom	40	–	–	–	40
James Rosenwald	31	–	–	–	31
	436	180	10	68	694

e) The following options over unissued ordinary shares of nil par value have been granted to the directors:

	Number of options over unissued ordinary shares	Date of grant	Exercise price per ordinary share	Exercise date
Howard Shore	5,921,990	15 January 2002	20.5p	Before 31 December 2015

On 9 March 2010, Howard Shore exercised options over 146,341 unissued ordinary shares in Shore Capital Group plc at an exercise price of 20.5p each. The market price on the date of exercise was 37.0p.

The closing price of the shares at 31 December 2011 was 16.5p (2010: 25.75p) and the range during the year was 16.50p to 33.75p.

f) Related party transactions

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

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

Transactions between Group companies comprise management charges for central overheads which are recharged throughout the Group.

The Group has a loan of €3,500,000 that is due from PBL. PBL is a related party as it has a high degree of common ownership following its de-merger from the Group. The loan is held on arms length terms and conditions.

g) Compensation of key management personnel

Excluding directors of the parent company (see note 6.d) the remuneration of key management during the year was as follows:

	2011 £'000	2010 £'000
Salaries and other short-term benefits	2,670	3,814
	2,670	3,814

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7. Tax on Profit on Ordinary Activities

	2011 £'000	2010 £'000
The tax charge comprises		
Provision for United Kingdom corporation tax (credit)/charge at 26.5% (2010: 28.0%)	(75)	1,610
Prior year overprovision	(19)	–
Movement in deferred tax	283	367
	189	1,977

Tax in Guernsey is charged at 0%. Tax on the Group's UK subsidiaries is charged at 26.5% (2010: 28%) as detailed below:

	2011 £'000	2010 £'000
(Loss)/Profit on ordinary activities before tax	(875)	8,369
Tax thereon at 26.5% (2010: 28.0%)	(232)	2,343
Effects of:		
Expenses not deductible for tax purposes	260	352
Losses/(income) not deductible/(chargeable) to tax	165	(644)
Share based payments	14	(1)
Capital allowances in excess of depreciation	(172)	(248)
Temporary differences	177	203
Prior year adjustment	(19)	–
Other	(4)	(28)
	189	1,977

With effect from 1 April 2011, the rate of UK corporation tax reduced from 28% to 26%. As a result the average tax rate on the (loss)/profit before tax for the Group's UK activities for 2011 was 26.5% (2010: 28%). It has been announced that the UK corporation tax rate will reduce to 24% with effect from 1 April 2012.

Deferred Taxation

	Share-based payments £'000	Temporary differences £'000	Total £'000
At 1 January 2011	350	(10)	340
Credit/(Charge) to income	14	(297)	(283)
Charge to equity	(298)	(38)	(336)
At 31 December 2011	**66**	**(345)**	**(279)**

8. Acquisition of subsidiary

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

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

i. Spectrum

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

ii. DBD

	Book value £'000	Fair value £'000
Tangible and intangible fixed assets	20,332	4,174
Other debtors	1,592	1,592
Cash	3,013	3,013
Deferred taxes and prepaid expenses	434	434
Accrued liabilities	(1,442)	(1,442)
Short term liabilities	(956)	(956)
Long term liabilities	(48,227)	(2,839)
Total identifiable assets	(25,254)	3,976
Less share of assets acquired attributable to Non Controlling interests		–
		3,976
Goodwill		(49)
Total consideration		3,927
Net cash outflow arising on acquisition:		
Consideration paid		3,927
Less: cash and cash equivalent balances acquired		(3,013)
Net cash outflow		914

The tangible fixed assets represent equipment currently installed and available for new customers, and the intangible fixed assets represent the spectrum licences held by DBD. Their fair value was £4,174,000 at the acquisition date.

The carrying value of the current assets and of the current liabilities each approximated their fair value.

The long term liabilities represent loans to the company from its shareholders. These obligations are only repayable to the extent that DBD has surplus net assets 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, the fair value recognised was £2,839,000 at the acquisition date.

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

In line with the anticipated business plan, during the period Spectrum and DBD combined have contributed revenues of £2,289,000 and a loss of £1,252,000 to the results of the Group.

Goodwill

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

9. Rates of Dividends Paid and Proposed

	2011 £'000	2010 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2010 of 0.625p per share (2009 second interim dividend: 0.625p)	1,528	1,537
Interim dividend for the year ended 31 December 2011 of 0.25p per share (2010: 0.25p)	604	617
	2,132	2,154

	2011 £'000
Proposed final interim dividend for the year ended 31 December 2011 of 0.25p per share (2010: final dividend of 0.625p)	604

10. Earnings per Share

The earnings and number of shares in issue or to be issued used in calculating the earnings per share and diluted earnings per share in accordance with IAS 33 were as follows:

	2011		2010	
	Basic	Diluted	Basic	Diluted
(Loss)/earnings (£)	(1,088,000)	(1,088,000)	4,520,000	4,520,000
Number of shares	243,038,613	247,529,383	246,919,948	254,870,584
(Loss)/earnings per share (p)	(0.45)	(0.44)	1.83	1.77

	2011		2010	
	Basic	Diluted	Basic	Diluted
Comprehensive (loss)/earnings (£)	(2,159,000)	(2,159,000)	4,929,000	4,929,000
Number of shares	243,038,613	247,529,383	246,919,948	254,870,584
(Loss)/earnings per share (p)	(0.89)	(0.87)	2.00	1.93

Calculation of number of shares

	2011		2010	
	Basic	Diluted	Basic	Diluted
Weighted average number of shares	243,038,613	243,038,613	246,919,948	246,919,948
Dilutive effect of share option schemes	–	4,490,770	–	7,950,636
	243,038,613	247,529,383	246,919,948	254,870,584

As at 31 December 2011 there were 241,639,601 ordinary shares in issue (2010: 244,450,877). Movements in the number of shares in issue during the year are set out in note 24.

11. Lease Commitments

	2011 £'000	2010 £'000
Minimum lease payments under operating leases recognised as an expense during the year	633	626

At 31 December 2011 the Group had outstanding commitments for future minimum lease payments under operating leases, which fall due as follows:

	2011 £'000	2010 £'000
Operating leases		
Amounts payable in under one year	633	626
Amounts payable between one and five years	1,362	988
Amounts payable between five and ten years	587	–
	2,582	1,614

Operating lease payments represent rentals payable by the Group for its office properties.

12. Categories of Financial Assets and Liabilities

At 31 December 2011	Designated at fair value £'000	Held for trading £'000	Loans and receivables £'000	Available-for-sale securities £'000	Financial assets and liabilities at amortised cost £'000	Total £'000
Financial assets						
Cash and cash equivalents	–	–	–	–	47,305	47,305
Trading assets (bull positions)	3,562	3,486	–	–	–	7,048
Trade receivables in the course of collection	–	–	–	–	35,765	35,765
Loans	–	–	3,311	–	–	3,311
Financial investments	–	–	–	4,955	–	4,955
Other assets	–	–	–	–	2,469	2,469
	3,562	3,486	3,311	4,955	85,539	100,853
Tax assets						629
Accrued income						1,136
Goodwill						381
Intangible assets						4,251
Property, plant & equipment						12,516
Total assets per balance sheet						119,766
Financial liabilities						
Bank overdrafts and borrowings	–	–	–	–	27,609	27,609
Trading positions (bear positions)	–	786	–	–	–	786
Trade creditors in the course of collection	–	–	–	–	18,085	18,085
Derivatives	–	360	–	–	–	360
Other liabilities	–	–	–	–	6,277	6,277
	–	1,146	–	–	51,971	53,117
Accruals						905
Tax liabilities						–
Provision for liabilities and charges						36
Deferred tax liability						279
Total liabilities per balance sheet						54,337

12. Categories of Financial Assets and Liabilities continued

At 31 December 2010	Designated at fair value £'000	Held for trading £'000	Loans and receivables £'000	Available-for-sale securities £'000	Financial assets and liabilities at amortised cost £'000	Total £'000
Financial assets						
Cash and cash equivalents	–	–	–	–	44,249	44,249
Trading assets (bull positions)	7,436	3,765	–	–	–	11,201
Trade receivables in the course of collection	–	–	–	–	52,038	52,038
Loans	–	–	533	–	–	533
Financial investments	–	–	–	11,167	–	11,167
Other assets	–	–	–	–	3,220	3,220
	7,436	3,765	533	11,167	99,507	122,408
Accrued income						1,969
Goodwill						381
Property, plant & equipment						12,710
Deferred tax asset						340
Total assets per balance sheet						137,808
Financial liabilities						
Bank overdrafts and borrowings	–	–	–	–	25,763	25,763
Trading positions (bear positions)	–	1,343	–	–	–	1,343
Trade creditors in the course of collection	–	–	–	–	32,184	32,184
Derivatives	–	806	–	–	–	806
Other liabilities	–	–	–	–	5,118	5,118
	–	2,149	–	–	63,065	65,214
						1,206
Tax liabilities						1,443
Provision for liabilities and charges						172
Total liabilities per balance sheet						68,035

13. Goodwill

	Goodwill arising on the acquisition of non controlling interest in subsidiary
Cost	£'000
At 1 January and 31 December 2011	381

There has been no impairment in the value of the asset.

14. Intangible assets

	£'000
Cost	
On acquisition of DBD	4,174
Additions post acquisition	295
Retranslation movement	(218)
At 31 December 2011	**4,251**

The intangible assets represent the licences acquired on the acquisition of DBD (see note 8). There has been no impairment in the value of the asset.

15. Property, Plant & Equipment

Cost	Leasehold premises £'000	Fixtures and equipment £'000	Asset Rental £'000	Motor vehicles £'000	Total £'000
At 1 January 2011	1,055	1,754	12,995	173	15,977
Additions	–	462	–	74	536
Disposals	(165)	(10)	–	(31)	(206)
Retranslation movement	–	(5)	225	–	220
At 31 December 2011	**890**	**2,201**	**13,220**	**216**	**16,527**
Depreciation					
At 1 January 2011	701	1,052	1,444	70	3,267
Charge for the year	104	227	505	32	868
Retranslation movement	–	(4)	49	–	45
Disposals	(138)	(4)	–	(27)	(169)
At 31 December 2011	**667**	**1,271**	**1,998**	**75**	**4,011**
Net Book Value					
At 31 December 2011	**223**	**930**	**11,222**	**141**	**12,516**
At 31 December 2010	354	702	11,551	103	12,710

16. Investments

Available-for-Sale Investments

	Non-Current			Current		
Cost	Listed investments £'000	Unlisted investments £'000	Total £'000	Listed investments £'000	Unlisted investments £'000	Total £'000
At 1 January 2011	4,158	7,316	11,474	–	–	–
Transfer from non current to current	–	(5,760)	(5,760)	–	5,760	5,760
Additions	–	74	74	–	–	–
Disposals	(604)	(4)	(608)	–	–	–
At 31 December 2011	**3,554**	**1,626**	**5,180**	**–**	**5,760**	**5,760**
Revaluation						
At 1 January 2011	770	(1,077)	(307)	–	–	–
Transfer from non current to current	–	785	785	–	(785)	(785)
Revaluation in the year	(1,064)	–	(1,064)	–	–	–
Disposals	10	–	10	–	–	–
(Impairment)/uplift	(124)	25	(99)	–	(4,525)	(4,525)
At 31 December 2011	**(408)**	**(267)**	**(675)**	**–**	**(5,310)**	**(5,310)**
Valuation						
At 31 December 2011	**3,146**	**1,359**	**4,505**	**–**	**450**	**450**
At 31 December 2010	4,928	6,239	11,167	–	–	–

16. Investments continued

Additional information on principal subsidiaries

Subsidiary		Country of registration and operation	Activity	Portion of ordinary shares and voting rights held
Trading Companies				
Trading Companies				
Shore Capital Group Treasury Limited		Guernsey	Treasury company	100%
Shore Capital Group Investments Ltd		Guernsey	Holds investments	100%
Puma Property Investment Advisory Ltd		Guernsey	Property advisory services	100%
Shore Capital Finance Limited		Guernsey	Credit provider	100%
Spectrum Investments Limited	1	Guernsey	Holds investments	51.0%
DBD Deutsche Breitband Dienste	1	Germany	Telecoms	58.35%
Shore Capital Markets Limited	2	England and Wales	Intermediate Holding Co.	79.5%
Shore Capital Stockbrokers Limited	3	England and Wales	Broker/dealer	79.5%
Shore Capital and Corporate Limited	3	England and Wales	Corporate advisers	79.5%
Shore Capital Limited		England and Wales	Fund Management	100%
Shore Capital Group plc		England and Wales	Intermediate Holding Co.	100%
Shore Capital Investments Limited		England and Wales	Holds investments	100%
Shore Capital Treasury Limited		England and Wales	Treasury company	100%
Shore Capital International Limited		England and Wales	Advisory services	100%
Shore Capital Management Limited		England and Wales	Member of an LLP	100%
Shore Capital (Japan) Limited		England and Wales	Credit provider	100%
Pebble Investments Limited		Guernsey	Holds investments	100%
Puma Property Advisers Limited		Guernsey	Property advisory services	100%
JellyWorks Limited		England and Wales	Dormant	100%
Limited Liability Partnerships				
The Lily Partnership LLP		England and Wales	Asset rental business	80%
Nominee Company				
Puma Nominees Limited		England and Wales	Nominee company	100%

1 Spectrum Investments Limited is the intermediate holding company of, and holds 58.35% of the ordinary shares and voting rights in, DBD Deutsche Breitband Dienste. The Company currently has a direct holding of 51.0% in Spectrum Investments Limited. The balance of the shares in each of Spectrum Investments Limited and DBD Deutsche Breitband Dienste are held by external investors.

2 Shore Capital Markets Limited is the intermediate holding company of, and holds 100% of the ordinary shares and voting rights in, each of Shore Capital Stockbrokers Limited and Shore Capital and Corporate Limited. The Company currently has a direct holding of 79.5% in Shore Capital Markets Limited. The balance of the shares in Shore Capital Markets Limited were bought by senior executives of that company and its subsidiaries.

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

17. Bull Positions and Other Holdings at fair value

	2011 £'000	2010 £'000
Held For Trading		
Listed holdings at market value:		
Equities	1,852	3,765
Debt instruments	1,634	–
	3,486	3,765
Designated at fair value		
Listed holdings at market value:		
Debt instruments	1,608	2,048
Unlisted holdings:		
Equities	1,913	2,042
Debt	–	–
Invested in own fund and products	41	347
Other (including hedge funds)	–	–
	3,562	4,437
	7,048	8,202

The fair value of financial assets has been determined as follows:

1 for listed holdings the fair value is determined, in whole, by reference to published price quotations; and

2 for unlisted holdings fair value is estimated wherever possible using observable market prices or rates. Where none exist, the fair value is determined by the directors at the most recent available representative arm's length price or valuation. The fair value of the largest holding has been estimated based on the net asset value of the investee company which itself is based on external professional property valuations.

18. Trade and Other Receivables

	2011 £'000	2010 £'000
Trade receivables	35,765	52,038
Other receivables	2,469	3,220
Loans	3,311	3,532
Prepayments and accrued income	1,136	1,969
	42,681	60,759

The directors consider that the carrying value of trade and other receivables approximates to their fair value. Trade receivables are shown net of provision for doubtful debts amounting to £280,000 (2010: £113,000).

The table below shows the ageing of trade debtors which are past their due date for payment but not impaired.

	2011 £'000	2010 £'000
Between 30 and 60 days	71	34
Between 60 and 90 days	115	31
Greater than 90 days	210	614
	396	679
Amounts not yet due	42,285	60,080
Trade receivables	42,681	60,759

19. Cash and Cash Equivalents

Analysis of Changes In Net Funds

	As at 1 January 2011 £'000	Cashflows £'000	As at 31 December 2011 £'000
Cash at bank and in hand	44,249	3,056	47,305
Overdraft	–	–	–
	44,249	3,056	47,305

20. Trade and Other Payables

	2011 £'000	2010 £'000
Trade creditors	18,085	32,184
Other creditors	5,127	3,175
Other taxation and social security	1,150	1,943
Accruals and deferred income	905	1,206
	25,267	38,508

The directors consider that the carrying value of trade and other payables approximates their fair value.

21. Borrowings

	2011 £'000	2010 £'000
Borrowings at amortised cost		
Bank loans	25,605	25,763
Other loans	2,004	–
Total Borrowings	27,609	25,763
Amount due to be repaid within 12 months	345	339
Amount due to be repaid after 12 months	27,264	25,424

31 December 2011	Multi currency loan facility £'000	Amortising USD loan facility £'000	Spectrum/ DBD £'000	Total £'000
Bank loans	15,000	10,605	–	25,605
Other loans	–	–	2,004	2,004
	15,000	10,605	2,004	27,609

31 December 2010	Multi currency loan facility £'000	Amortising USD loan facility £'000	Spectrum/ DBD £'000	Total £'000
Bank loans	15,000	10,763	–	25,763
Other borrowings	–	–	–	–
	15,000	10,763	–	25,763

In respect of the multi currency loan facility, the Group deposits as security certain of its bull positions and other holdings and cash balances. As at 31 December 2011, these had a carrying value of £20,111,000 (2010: £21,005,000). The Group also has a GBP facilitiy comprising a multi-option overdraft facility and a revolving credit facility which are secured by a floating charge over the assets of the Group's stockbroking subsidiary.

21. Borrowings continued

The weighted average interest rates paid during the year were as follows:

	2011 %	2010 %
Bank overdrafts	2.25	2.25
Bank loans	5.10	5.05

The weighted average interest rates paid during the year were as follows:

(i) Sterling based facilities of £20,000,000 in total comprising a multi-option overdraft facility of £15,000,000 and a revolving credit facility of £5,000,000. Under this facility, the Group has the option to draw down a fixture for a fixed maturity or an overdraft which is repayable on demand. The average effective interest rate on bank overdrafts was approximately 2.25% per annum (2010: 2.25%) and was determined on a base rate plus a margin. Both facilities were undrawn as at 31 December 2011.

(ii) The Group has two principal bank loans:

(a) a multi-currency loan facility of £15,000,000 (2010: £15,000,000). During the year this facility was extended to have a minimum term until 31 July 2014. The loan is secured by a charge over part of the Group's bull positions and holdings and cash. The loan carries an interest rate at 2.0% above LIBOR for the relevant period in the relevant currency. There is no material difference between the amortised value of the loan and fair value.

(b) an amortising loan of $16,322,000 (2010: $16,853,000) for which the Group has liability for 80%. Principal is repayable in quarterly instalments with final repayment due on 31 March 2018. The loan is secured by a charge over the Group's rental asset. The loan carries an interest rate at 1.0% above 3 month USD LIBOR. As at 31 December 2011 the fair value of the loan was $15,007,000 (2010: $15,435,000).

Undrawn Facilities

The Group's sterling based loan facility of £20,000,000 is structured as a multi option facility of £15,000,000 and a revolving credit facility of £5,000,000. As at the year end, £15,000,000 (2010: £15,000,000) was undrawn on the multi-option facility and £5,000,000 (2010: £5,000,000) was undrawn on the revolving credit advance facility.

22. Provision for Liabilities and Charges

Provision for National Insurance contributions on share options

	2011 £'000	2010 £'000
At 1 January	172	729
Credit in the year	(136)	(557)
At 31 December	36	172

This provision will be utilised when staff exercise their options during the period of 1 January 2012 to 23 March 2019.

23. Capital Commitments

As at 31 December 2011, there were no amounts which were contracted for but not provided in the financial statements (2010: £nil).

24. Called Up Share Capital

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

Shore Capital Group Limited – ordinary shares of nil par value	Number of shares	£'000
Issued by SCGL on reorganisation	245,248,371	–
Shares issued in respect of options exercised	1,400,000	–
Shares repurchased and cancelled	(2,197,494)	–
At 31 December 2010	244,450,877	–
Shares issued in respect of options exercised	827,273	–
Shares repurchased and cancelled	(3,638,549)	–
At 31 December 2011	**241,639,601**	**–**

Own shares (held in treasury)	Number of shares	£'000
At 1 January 2010	28,493,204	9,070
Sold in the year	(123,952)	(55)
Cancelled in the year	(28,369,252)	(9,015)
At 31 December 2010 & 2011	**–**	**–**

Shore Capital Group plc

In the prior year, during the period from 1 January 2010 up to the date of the re-organisation, there were 1,466,977 ordinary shares of 2p each which were issued as the result of the exercise by employees of share options granted in prior years under the terms of the Share Option Plan.

During the period from 1 January 2010 up to the date of the re-organisation, the company repurchased 7,333,560 ordinary shares of 2p each at an average price of 38.9p. The shares were repurchased to enhance the value of the remaining shares.

Shore Capital Group Limited

In 2011 there were 827,273 (2010: 1,400,000) ordinary shares of nil par value which were issued as the result of the exercise by employees of share options granted in prior years under the terms of the Share Option Plan.

During 2011 the company repurchased and cancelled 3,638,549 (2010: 2,197,494) ordinary shares of nil par value at an average price of 26.0p (2010: 25.0p). The shares were repurchased to enhance the value of the remaining shares.

25. Financial Instruments

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt (see note 21), cash and cash equivalents (see note 19), and equity attributable to equity holders of the parent, comprising issued share capital, reserves and retained earnings (see Consolidated Statement of Changes in Equity).

The Group's financial instruments comprise cash and liquid resources, trade and other receivables and trade and other payables, bull and bear positions in equities, financial assets designated at fair value and derivative instruments. The profit and loss arising from dealings in financial instruments is included within Revenue. This is analysed by financial instrument as follows:

Net gains or losses arising from dealings in financial instruments

2011	Designated at fair value £'000	Held for trading £'000	Available-for-sale securities £'000	Total £'000
Equities	(165)	11,341	(968)	10,208
Debt	(133)	–	–	(133)
Alternative Assets	–	–	(64)	(64)
	(298)	11,341	(1,032)	10,011
2010				
Equities	331	16,490	(2,930)	13,891
Debt	1,119	–	–	1,119
Alternative Assets	–	–	–	–
	1,450	16,490	(2,930)	15,010

The main risks arising from the Group's financial instruments are market risk, currency risk, interest rate risk, credit risk and liquidity risk. The Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

a) Market Risk

The Group is exposed to market risk in respect of its trading in equities and other holdings. The fair value at the year end of positions arising from these activities is disclosed in the Financial Statements in note 17 for bull positions and the carrying value of the bear positions as disclosed on the face of the balance sheet is equal to the fair value.

Other holdings mainly comprise seeding of own Funds which have been launched (details of which are set out in the Chairman's statement on pages 4 to 11).

The year end positions arising from market-making activities are in line with those maintained throughout 2011. Both the permitted size of each trading book and the size of individual positions are predetermined and dealers are set prescribed limits within which they can deal. Day-to-day risk monitoring is carried out by the Head of the Shore Capital Markets division and the Compliance Department.

Based on a 10% movement in the market price of equities, with all other variables remaining unchanged, the effect on profit for the year and equity would be as follows:

	2011 Net equity £'000	2011 Change in price of UK equities %	2011 Effect on profit and on equity £'000	2010 Net equity £'000	2010 Change in price of UK equities %	2010 Effect on profit and on equity £'000
Listed equities (net)	1,066	10%	107	2,422	10%	242
Listed holdings in own funds and products	–	10%	–	–	10%	–
Listed investments	3,146	10%	315	4,928	10%	493

25. Financial Instruments continued

b) Currency Risk

Other than borrowings as set out in note 21, the Group's foreign currency cash and bank balances at the year end were not material and are not separately disclosed in the Financial Statements. Where relevant, currency is bought or sold at the time of trading in order to meet the funds due or receivable on settlement.

The fair value at the year end of available-for-sale investments, bull positions and other holdings which were denominated in foreign currencies was:

	2011 £'000	2010 £'000
Held in United States dollars	3,530	4,118
Held in Euros	20	3,042
	3,550	7,160

The Group enters into forward contracts for the sale of foreign currencies in order to hedge its exposure to fluctuations in currency rates in respect of these bull positions and other holdings. These forward contracts are fair valued at the balance sheet date based on a discounted cash flow basis using relevant market data on foreign exchange and interest rates, with any change in value taken to the Income Statement.

The amount taken to the Income Statement during the year was a profit of £27,000 (2010: £52,000 profit).

As at the year end the fair value of forward contracts which were hedging bull positions and other holdings was a net asset of £246,000 (2010: £55,000 net liability). The related notional contracts as at 31 December 2011 were £11,819,000 (2010: £9,093,000).

The table below illustrates the sensitivity of the profit for the year and of equity with regards to currency movements on financial assets and liabilities denominated in foreign currencies.

The retranslation of net investment in foreign currencies is excluded from the following table.

Based on a 5% movement in the Euro and US Dollar against sterling exchange rates, the effect on profit for the year and equity would be as follows:

	2011		2010	
	Euro £'000	US Dollar £'000	Euro £'000	US Dollar £'000
5% Stronger against GBP	200	(301)	246	(191)
5% Weaker against GBP	(181)	272	(223)	173

c) Interest Rate Risk

The Group exposure to long-term fixed borrowings is set out in note 21.

The interest bearing financial assets and liabilities of the Group comprise cash and cash equivalents, bank overdrafts and bank borrowings as shown in the consolidated balance sheet. Cash and cash equivalents receive, and bank overdrafts pay, interest at floating rates linked to either bank base rates or money market rates. The Group has a £15m overdraft facility and a £5m revolving advance facility which are both renewable annually, and a £15m multi-currency loan facility that has a minimum term until 31 July 2014. These borrowings pay interest at rates linked to money market rates for the relevant currency. The Group also has an amortising loan of $16,322,000 for which there is a cashflow hedge to fix the rate of interest. During the year the Group entered into a further hedge as a result of which the rate of interest on this loan is now fixed until 30 June 2015. Thereafter, the rate of interest is linked to USD money market rates. The bank borrowings are described in more detail in note 21.

Interest rate sensitivity analysis

Interest on financial instruments classified as floating rate is reset at intervals of less than one year.

A positive 100 basis point movement in interest rate applied to the average value of balance sheet items which are subject to floating interest rates would result in the following impact on profit for the year:

	2011 £'000	2010 £'000
+100 basis point movement in interest rates	40	21
As percentage of total shareholders' equity	0.068%	0.033%

The Group would experience an equal and opposite impact on profit should the interest rate move by negative 100 basis points.

25. Financial Instruments continued

d) Credit Risk

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

The Group's cash and cash equivalents are held with a diversified range of banks, each of which is a major UK clearing bank and supported by a government guarantee.

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

The Group monitors defaults of customers and other counterparties and incorporates this information into its credit risk controls. Where available, external credit ratings and/or reports on customers and other counterparties are obtained and used. The carrying value of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk. The Group's top 5 trade receivables counterparty exposures are as follows:

	2011 £'000
TD Waterhouse	1,974
Redmayne Bentley	272
Merrill Lynch	267
Pershing Securities Limited	264
Jarvis Investment Management plc	152
	2,929

	2010 £'000
TD Waterhouse	3,887
Barclays bank plc	642
Pershing Securities Limited	582
Redmayne Bentley	548
Halifax plc	479
	6,138

e) Liquidity Risk

Ultimate responsibility for liquidity management rests with the board of directors. The Group manages liquidity risk by maintaining adequate cash reserves, banking facilities and borrowing facilities to meet its actual and forecast cash flows and matching maturity profiles of financial assets and liabilities. Note 21 includes details of undrawn facilities available to the Group.

Maturity profile of financial liabilities

The table below reflects the contractual maturities, including interest payments, of the Group's financial liabilities as at 31 December:

2011	Repayable on demand £'000	Due within 3 months £'000	Due between 3 months and 12 months £'000	Due between 1 year and 5 years £'000	Due after 5 years £'000	Total £'000
Bear Positions	–	786	–	–	–	786
Trade payables	–	18,085	–	–	–	18,085
Derivatives	–	(94)	454	–	–	360
Bank loans and overdrafts	–	225	669	18,389	9,438	28,721
Other liabilities	–	6,277	–	–	–	6,277
Accruals	–	905	–	–	–	905
	–	26,184	1,123	18,389	9,438	55,134

25. Financial Instruments continued

e) Liquidy Risk continued

Maturing profile of financial liabilities continued

2010	Repayable on demand £'000	Due within 3 months £'000	Due between 3 months and 12 months £'000	Due between 1 year and 5 years £'000	Due after 5 years £'000	Total £'000
Bear Positions	–	1,343	–	–	–	1,343
Trade payables	–	32,184	–	–	–	32,184
Derivatives	–	149	282	375	–	806
Bank loans and overdrafts	–	229	680	18,452	10,228	29,589
Other liabilities	–	5,118	–	–	–	5,118
Accruals	–	1,206	–	–	–	1,206
	–	40,229	962	18,827	10,228	70,246

The contractual maturities relating to the bank loans reflect gross cash flows, which differ to the carrying values of the liabilities at the balance sheet date.

f) Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

For trading portfolio assets and liabilities, financial assets and liabilities designated at fair value and financial investments available-for-sale which are listed or otherwise traded in an active market, for exchange-traded derivatives, and for other financial instruments for which quoted prices in an active market are available, fair value is determined directly from those quoted market prices (level 1).

For financial instruments which do not have quoted market prices directly available from an active market, fair values are estimated using valuation techniques, based wherever possible on assumptions supported by observable market prices or rates prevailing at the Balance Sheet date (level 2). This is the case for some unlisted investments and other items which are not traded in active markets.

For some types of financial instruments, fair values cannot be obtained directly from quoted market prices, or indirectly using valuation techniques or models supported by observable market prices or rates. This is the case for certain unlisted investments. In these cases, fair value is estimated indirectly using valuation techniques for which the inputs are reasonable assumptions, based on market conditions (level 3).

2011	**Level 1 Quoted market price £'000**	**Level 2 Market observable inputs £'000**	**Level 3 Non-market observable inputs £'000**	**Total £'000**
Available-for-sale financial investments	**3,146**	**450**	**1,359**	**4,955**
Bull positions and other holdings at fair value	**5,094**	**1,954**	**–**	**7,048**
Total financial assets	**8,240**	**2,404**	**1,359**	**12,003**
Bear positions	**786**	**–**	**–**	**786**
Derivatives	**–**	**360**	**–**	**360**
Total financial liabilities	**786**	**360**	**–**	**1,146**

2010	Level 1 Quoted market price £'000	Level 2 Market observable inputs £'000	Level 3 Non-market observable inputs £'000	Total £'000
Available-for-sale financial investments	4,928	4,975	1,264	11,167
Bull positions and other holdings at fair value	8,812	2,389	–	11,201
Total financial assets	13,740	7,364	1,264	22,368
Bear positions	1,343	–	–	1,343
Derivatives	–	806	–	806
Total financial liabilities	1,343	806	–	2,149

25. Financial Instruments continued

f) Fair value of financial instruments continued

Included in the fair value of financial instruments carried at fair value in the statement of financial position are those estimated in full or in part using valuation techniques based on assumptions that are not supported by market observable prices or rates (level 3).

There may be uncertainty about a valuation, resulting from the choice of valuation technique or model used, the assumptions embedded in those models, the extent to which inputs are not market observable, or as a result of other elements affecting such uncertainties and are deducted from the fair value produced by valuation techniques.

There have been no significant movements between level 1 and level 2 during the year.

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

	At 1 January 2011 £'000	Losses recorded in profit or loss £'000	Purchases and transfers £'000	Sales and transfers £'000	At 31 December 2011 £'000
Total financial assets	1,264	21	74	–	**1,359**

Based on the established fair value and model governance policies and the related controls and procedural safeguards the Group employs, management believe the resulting estimates in fair values recorded in the statement of financial position are reasonable and the most appropriate at the Balance Sheet date.

26. Regulatory Capital

Capital resources*, capital requirements and surplus capital at the balance sheet dates were as follows:

	2011 £'000	2010 £'000
Group		
Capital resources per statement of financial position	**65,429**	69,773
Less non EU resources*	**(32,752)**	(32,063)
Capital resources*	**32,677**	37,710
Less Capital Resources Requirement	**(7,837)**	(10,963)
Surplus capital resources	**24,840**	26,747

The Group's lead regulator is the Financial Services Authority (FSA) in the UK. Three of the Group's operating subsidiaries are regulated by the FSA which imposes a minimum level of regulatory capital which must be maintained by each company and also an overall level of regulatory capital which must be maintained by the Group's UK businesses*. The Group has maintained a surplus throughout the year over its regulatory capital requirements

As a result of the Group's history of strong organic growth, retained reserves have been the primary source of capital resources. The Group's balance sheet is strong and it continues to generate cash from its operations.

Capital resources are largely comprised of share capital and reserves, net of intangible assets. Capital requirements are derived from credit risk, market risk and operational risk considerations.

* The calculation of Capital Resources for the purposes of these rules only permit the inclusion of resources that are located in EU countries. Accordingly, the amount of Capital resources as presented in the table above excludes the assets and liabilities that are held by the Group's Guernsey based companies.

27. Subsequent events

The Company has proposed an interim dividend of 0.25p per share (see note 9).

Notice of Annual General Meeting

SHORE CAPITAL GROUP LIMITED

(a non cellular company limited by shares registered in the Island of Guernsey with registration number 51355)

(the "**Company**")

Notice is hereby given that the annual general meeting of the Company will be held at 11 a.m. on Monday, 18 June 2012 at Martello Court, Admiral Park, St Peter Port, Guernsey, GY1 3HB (the "**Annual General Meeting**") for the following purposes:

Ordinary Business

To consider and, if thought fit, pass the following resolutions as ordinary resolutions:

1 To receive and adopt the Accounts for the year ended 31 December 2011, together with the reports of the Directors and Auditors thereon.

2 To re-elect Zvi Marom as a director who retires by rotation pursuant to article 15.1 of the Company's Articles of Incorporation and, being eligible, offers himself for re-election.

3 To re-elect Lynn Bruce as a director who retires by rotation pursuant to article 15.6 of the Company's Articles of Incorporation and, being eligible, offers herself for re-election.

4 To re-appoint Deloitte LLP as Auditors of the Company and to authorise the Directors to determine their remuneration.

Special Business

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

5 To renew the authority of the Company, in accordance with Section 315 of The Companies (Guernsey) Law, 2008, as amended (the "Law"), to make market acquisitions (within the meaning of Section 316 of the Law) of each class of its own shares in issue from time to time (the "Shares") provided that:

(i) the maximum number of Shares hereby authorised to be purchased shall be such number as shall be equal to 14.99 per cent. of the issued share capital of the Company (excluding shares held in treasury) as at the date of the Annual General Meeting;

(ii) the minimum price (exclusive of expenses) which may be paid for a Share shall be £0.01 (one pence);

(iii) the maximum price which may be paid for a Share of the relevant class is an amount not more than 5 per cent. above the average of the market value of those Shares for the 5 business days before the purchase is made; and

(iv) the authority hereby conferred shall expire at the conclusion of the Company's annual general meeting in 2013 or, if earlier, eighteen months from the date of this resolution unless such authority is varied, revoked or renewed prior to such date by an ordinary resolution of the members of the Company.

Any Shares bought back by the Company will be cancelled or held as treasury shares.

To consider and, if thought fit, pass the following resolution as a special resolution:

6 To authorise the Directors to allot shares for cash as though the rights of pre-emption granted pursuant to Article 3.8 of the Company's Articles of Incorporation did not apply:

(i) in connection with a rights issue to existing shareholders (to allow the Directors to take action to overcome certain practical difficulties which could arise in that scenario), and

(ii) up to 24,163,960 Ordinary Shares based on the net issued share capital as at 19 April 2012 being the last practicable date prior to the posting of this Notice, being 10 per cent. of the net current issued share capital of the Company (to give the Directors some flexibility in financing business opportunities as they arise).

This authority would expire on the date of the 2013 annual general meeting or 17 December 2013, whichever is the earlier.

BY ORDER OF THE BOARD

Lynn Bruce
Company Secretary
Dated: 19 April 2012

Registered Office:
Martello Court
Admiral Park
St Peter Port
Guernsey
GY1 3HB

Notes:

1 A member who is entitled to attend and vote at this Annual General Meeting may appoint one or more proxies to attend and vote on his/her behalf. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. If you require additional proxy forms, please contact the Company's Registrars, Computershare Investor Services (Guernsey) Limited, c/o The Pavilions, Bridgwater Road, Bristol, BS99 6ZY on 0870 707 4040 or you may photocopy this form.

2 Such a proxy need not be a member of the Company.

3 To be valid, a Form of Proxy must be lodged with the Company's Registrars, Computershare Investor Services (Guernsey) Limited, c/o The Pavilions, Bridgwater Road, Bristol, BS99 6ZY at least 48 hours before the Annual General Meeting. A Form of Proxy for use by shareholders is enclosed with this Report. Completion of the Form of Proxy will not prevent a shareholder from attending the Annual General Meeting and voting in person.

4 In order to facilitate voting by corporate representatives at the Annual General Meeting, arrangements will be put in place at the Annual General Meeting so that (i) if a corporate shareholder has appointed the chairman of the Annual General Meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the Annual General Meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the Annual General Meeting but the corporate shareholder has not appointed the chairman of the Annual General Meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of representation letter if the chairman is being appointed as described in (i) above.

5 The quorum for the Annual General Meeting is two Shareholders entitled to vote. The majority required for the passing of the ordinary resolutions is a simple majority of votes cast for each resolution. The majority required for the passing of the special resolution is not less than 75 per cent. of the votes cast for that resolution.

6 At the Annual General Meeting, the Resolutions shall be decided on a show of hands (unless a poll is demanded) and on a show of hands every Shareholder who is present in person or by proxy shall have one vote.

7 Resolutions 2 and 3: Information about the Directors who are proposed by the Board for re-election at the Annual General Meeting is shown on page 12 of the Annual Report and Accounts 2011.

8 In accordance with Article 12.1 of the Company's Articles of Incorporation, only those members entered on the Company's register of members not later than 48 hours before the time of the Annual General Meeting or, if the Annual General Meeting is adjourned, shareholders entered on the Company's register of members not later than 48 hours before the time fixed for the adjourned Annual Meeting shall be entitled to attend and vote at the Annual General Meeting.

Explanation of Special Business

Explanation of Resolutions 5 and 6 to be proposed at the Annual General Meeting

On page 54 of the Report is the notice of Annual General Meeting which will be held on 18 June 2012. Set out below is a brief explanation of the resolutions comprising special business to be proposed at the Annual General Meeting.

Resolution 5

In certain circumstances it may be advantageous for the Company to purchase its own shares. Resolution 5, which will be proposed as an ordinary resolution, would give the Board authority from shareholders to do so. Such authority will expire on the date of the 2013 Annual General Meeting or 17 December 2013, whichever is the earlier. The Directors intend to exercise this power only if and when, in the light of market conditions prevailing at the time, they believe that the effect of such purchases would be in the best interests of the Company and shareholders generally. Any shares purchased in this way will be cancelled (in which case the number of shares in issue will be accordingly reduced) or held by the Company as treasury shares.

This resolution specifies the maximum number of shares which may be acquired (being 14.99 per cent. of the Company's issued shares as at the date of the resolution) and the maximum and minimum prices at which they may be bought.

Currently 19,250,098 Ordinary Shares are reserved for the exercise of options granted under the Company's Share Option Plan which equates to 7.97 per cent. of the Company's issued share capital. This percentage would increase to 9.37 per cent. if the authority to purchase the Company's own shares is exercised in full.

Resolution 6

Resolution 6 will be proposed as a special resolution and would give the Directors authority to allot shares for cash as though the rights of pre-emption granted pursuant to Article 3.8 of the Company's Articles did not apply:

a) in connection with a rights issue to existing shareholders (to allow the Directors to take action to overcome certain practical difficulties which could arise in that scenario such as arrangements to deal with fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange), and

b) up to 24,163,960 Ordinary Shares based on the net issued share capital as at 19 April 2012 being the last practicable date prior to the posting of this Report, being 10 per cent. of the net current issued share capital of the Company (to give the Directors some flexibility in financing business opportunities as they arise).

This authority would expire on the date of the 2013 Annual General Meeting or 17 December 2013, whichever is the earlier. The Directors have no present intention of exercising this authority.

Officers and Professional Advisers

Directors
Howard Shore
Lynn Bruce
Dr Zvi Marom*
James Rosenwald III*

*Non-executive

Secretary
Lynn Bruce

Company Number
51355

Registered Office
Martello Court
Admiral Park
St Peter Port
Guernsey GY1 3HB

Registrar
Computershare Investor Services
(Guernsey) Limited
3rd Floor
Natwest House
Le Trichot
St Peter Port
Guernsey GY1 1WD

Legal Adviser
Carey Olsen
Carey House
Les Banques
St Peter Port
Guernsey GY1 4BZ

Auditor
Deloitte LLP
Regency Court
Glategny Esplanade
St Peter Port
Guernsey GY1 3HW

Bankers
Royal Bank of Scotland International
Royal Bank Place
1 Glategny Esplanade
St Peter Port
Guernsey GY1 4BQ

Nominated Adviser
Deloitte Corporate Finance
Deloitte LLP
2 New Street Square
London EC4A 3BZ

Broker
RBC Capital Markets
Thames Court
1 Queenhithe
London EC4V 4DE

Shore Capital Group Limited
Martello Court
Admiral Park
St Peter Port
Guernsey GY1 3HB

Tel: 01481 724 222
Fax: 01481 724 247
www.shorecap.gg

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

Shore Capital Stockbrokers Limited
Bond Street House

Tel: 020 7408 4080
Fax: 020 7408 4081

The Corn Exchange
Fenwick Street
Liverpool L2 7RB

Tel: 0151 600 3700
Fax: 0151 600 3727

1st Floor
3/5 Melville Street
Edinburgh EH3 7PE

Tel: 020 7079 1670
Fax: 0131 226 2893

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

Tel.: +49 (0)30 20 45 87 0
Fax: +49 (0)30 20 45 87 187