Shore Capital Group Limited

Annual Report and Accounts 2012

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Highlights

Financial Highlights

- Revenue increased 11.2% to £32.8m (2011: £29.5m)
- Profit before tax of £3.7m (excluding Spectrum and DBD) (2011: £0.4m)
- Profit before tax of £2.5m (including Spectrum and DBD) (2011: loss of £0.9m)
- Earnings per share of 1.06p (excluding Spectrum and DBD) (2011: loss of 0.19p); 0.82p (including Spectrum and DBD) (2011: loss of 0.45p)
- Final dividend per share of 0.50p (2011: 0.25p per share)

Operational Highlights

- Another strong performance from ECM business, delivering a pre-tax profit of £5.1m (2011: £5.0m)
  - 23% increase in secondary commission in second half – giving 15% increase for year
  - 32% increase in corporate finance and corporate broking revenue
- Repositioning of Asset Management operations progressing well and providing clients with an innovative suite of new products
- German telecoms business ‘Spectrum Investments’ continues to be well placed to deliver significant investment upside
  - Increased holding in Spectrum since period end now gives us a majority interest
  - Investment potential endorsed with the sale of two competing German licences to E-Plus during 2012

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 third 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 £870 million.

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, covering approximately 225 stocks;
- research coverage in retailing and consumer goods including general retailing, food retailing and food manufacturing; financials including banks, speciality finance, life assurance and general insurance; healthcare including pharmaceuticals, bio-technology and life sciences; leisure; real estate, construction, property; support services; information technology software and hardware; natural resources; 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

- nine Puma VCTs established between 2005-13. Focus on providing mezzanine finance to growing businesses on attractive terms;
- have raised over £130m 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;
- 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 Spectrum, which now holds, directly and indirectly, substantially all of the economic interest in DBD Deutsche Breitband Dienste GmbH ("DBD"), a German telecoms business. Shore Capital has a majority interest in Spectrum (59 per cent).

DBD holds radio spectrum licences in Germany in the 3.5 GHz range which is increasingly being deployed around the world for providing 4G mobile services. The German mobile market is the largest in Europe, with circa 115 million subscribers recorded in 2012 generating the largest sector revenues in Europe. As in other European mobile markets, the deployment of 4G in Germany continues to drive revenue growth as subscribers demand greater levels of data capacity. DBD's spectrum is ideally placed to provide mobile operators in Germany with additional data capacity for smart phones and tablet devices.

Chairman's Statement

Introduction

I am pleased to report that the Group made considerable progress in 2012 on many fronts, enabling us to achieve solid financial results whilst also further improving our strategic positioning.

Revenue was up 11.2 per cent to £32.8m (2011: £29.5m) and profit before tax (excluding Spectrum and DBD) rose substantially to £3.7m (2011: £0.4m). Including Spectrum and DBD profit before tax was £2.5m compared to a loss in 2011 of £0.9m (which included the substantial write down on our investment in Puma Hotels).

Our ECM business produced another strong performance, achieving a 23 per cent increase in secondary commission in the second half, giving a 15 per cent increase for the full year. Corporate finance and corporate broking revenues also showed strong growth with a 32 per cent advance over 2011.

Good progress was also made during the year in repositioning our Asset Management operations and our innovative suite of new products in this area leaves us well placed for future growth.

Since the year end we increased our stake in our German telecoms business "Spectrum Investments" and now have a majority holding. We believe that Spectrum is well placed to deliver significant investment upside as endorsed by the sale of two competing German licences to E-Plus in 2012.

Financial Review

Table 1 (opposite) provides 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. 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 had a net economic interest in DBD of just under 30 per cent (via our holding in Spectrum) during the year under review.

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. During the year under review, our economic interest in DBD was held via a 51 per cent holding 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 for the year, excluding Spectrum/DBD, increased by 12.5 per cent to £30.6m (2011: £27.2m).

The prior year included a reduction of £4.8m in the value of our investment in Puma Hotels ("PHP"), and there was a further provision in 2012 of £0.4m against the value of this investment. As at 31 December 2012, our investment in PHP was valued at £16,000.

Administrative expenses were very slightly up on the prior year at £26.6m (2011: £26.5m) providing an operating profit of £4.0m (2011: £0.7m).

Interest income was £0.3m (2011: £0.3m), whilst finance costs were £0.6m (2011: £0.6m) resulting in profit before tax of £3.7m (2011: £0.4m). The net margin before tax was 12.0 per cent (2011: 1.4 per cent).

Revenue from ECM was £22.7m (2011: £22.5m) with a net margin of 22.3 per cent (2011: 22.3 per cent). Revenue from Asset Management was £6.3m (2011: £8.6m) with a net margin of 15.1 per cent (2011: 26.0 per cent). The lower Asset Management revenue was a consequence of closing the Group's private client discretionary management service, and lower fee income from PHP due to the reduction in its net asset value.

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 held a net economic interest in DBD of just under 30 per cent (via our holding in Spectrum) during the year under review.

The Group has actively managed the cost base of DBD and as a result the consolidated loss before tax arising from this investment has reduced to £1.2m for the year (2011: £1.3m for the nine months from acquisition). This loss reduced the profit before tax for the Group to £2.5m (2011: loss of £0.9m).

Basic Earnings per Share

The Group generated earnings per share of 1.06p (2011: loss of 0.19p) excluding Spectrum/DBD. Including the effects of Spectrum/DBD, the Group generated earnings per share of 0.82p (2011: loss of 0.45p).

Comprehensive Earnings per Share

On a Comprehensive basis, the Group generated earnings of 0.82p per share (2011: loss of 0.89p).

Staff Costs

Staff costs, including incentive costs, were 46.9 per cent of revenue (2011: 49.5 per cent) excluding revenue from Spectrum and DBD.

Liquidity

We have a £20m working capital facility (which was unutilised at the year end). During the year the Group repaid its £15m evergreen loan as the terms no longer provided the flexibility sought by the Group.

As at the balance sheet date, available liquidity was £31.8m (2011: £50.5m), comprising £30.4m (2011: £47.3m) of cash and £1.3m (2011: £3.2m) of gilts and bonds.

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

	Operating businesses 2012 £'000	Operating businesses 2011 £'000	**Balance sheet 2012 £'000**	Balance sheet 2011 £'000	**Total excluding Spectrum/ DBD 2012 £'000**	Total excluding Spectrum/ DBD 2011 £'000
Revenue	**29,784**	32,261	**856**	(5,037)	**30,640**	27,224
Administrative expenditure	**(26,629)**	(26,488)	**–**	–	**(26,629)**	(26,488)
Operating profit/(loss)	**3,155**	5,773	**856**	(5,037)	**4,011**	736
Interest income	**314**	283	**–**	–	**314**	283
Finance costs	**(635)**	(642)	**–**	–	**(635)**	(642)
	(321)	(359)	**–**	–	**(321)**	(359)
Profit/(loss) before taxation	**2,834**	5,414	**856**	(5,037)	**3,690**	377
Taxation	**(646)**	(1,469)	**152**	1,280	**(494)**	(189)
Profit/(loss) for the year	**2,188**	3,945	**1,008**	(3,757)	**3,196**	188
Attributable to:						
Equity holders of the parent	**1,569**	3,305	**1,008**	(3,757)	**2,577**	(452)
Non controlling interests	**619**	640	**–**	–	**619**	640
	2,188	3,945	**1,008**	(3,757)	**3,196**	188
Earnings/(loss) per share						
Basic	**0.65p**	1.39p	**0.41p**	(1.58p)	**1.06p**	(0.19p)
Diluted	**0.65p**	1.39p	**0.41p**	(1.57p)	**1.06p**	(0.18p)

Table 2: Analysis of the Unaudited Consolidated Income Statement

	Total excluding Spectrum/ DBD 2012 £'000	Total excluding Spectrum/ DBD 2011 £'000	Spectrum/ DBD 2012 £'000	Spectrum/ DBD 2011 £'000	Total 2012 £'000	Total 2011 £'000
Revenue	30,640	27,224	2,181	2,289	32,821	29,513
Administrative expenditure	(26,629)	(26,488)	(3,344)	(3,595)	(29,973)	(30,083)
Operating profit/(loss)	4,011	736	(1,163)	(1,306)	2,848	(570)
Interest income	314	283	–	5	314	288
Finance costs	(635)	(642)	–	–	(635)	(642)
Negative goodwill on acquisition of DBD	–	–	–	49	–	49
	(321)	(359)	–	54	(321)	(305)
Profit/(loss) before taxation	3,690	377	(1,163)	(1,252)	2,527	(875)
Taxation	(494)	(189)	–	–	(494)	(189)
Profit/(loss) for the year	3,196	188	(1,163)	(1,252)	2,033	(1,064)
Attributable to:						
Equity holders of the parent	2,577	(452)	(590)	(636)	1,987	(1,088)
Non controlling interests	619	640	(573)	(616)	46	24
	3,196	188	(1,163)	(1,252)	2,033	(1,064)
Earnings/(loss) per share						
Basic	1.06p	(0.19p)	(0.24p)	(0.26p)	0.82p	(0.45p)
Diluted	1.06p	(0.18p)	(0.24p)	(0.26p)	0.82p	(0.44p)

Balance Sheet

Our balance sheet remains strong. Total equity at the year end was £66.4m (2011: £65.4m). The main movements comprised the retained profit for the year of £2.0m less dividends paid of £1.4m (including those to minority interests).

In addition to the £30.4m of cash and £1.3m of gilts and bonds (as referred to above), we held £5.5m in the various Puma Funds, £1.4m net in quoted equities, £0.4m net in the Lily Partnership and a further £1.3m in other unquoted holdings. In addition, we held £4.1m in Spectrum Investments (on a gross basis, before allowing for minority interests).

The remainder of the balance sheet was £21.9m net, which included £25.5m 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 24.7p (2011: 24.2p).

Dividend

I previously wrote that the Board would not declare an interim dividend for 2012, but would declare a dividend for the full year. Accordingly, we propose a final dividend of 0.50p per share (2011: 0.25p). This gives a total dividend of 0.50p per share (2011: 0.50p per share). The dividend will be paid on Thursday 25 April, 2013 to shareholders on the register as at Friday 12 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.225 companies, broking for institutional and professional clients, market-making in c.1,250 UK stocks, with a particular focus on the AIM market, and corporate finance for mid and small cap companies.

Following on from its strong performance in the first half the ECM 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 £5.1m (2011: £5.0m). Each of the ECM 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.

We floated Fastnet Oil & Gas plc on AIM in June 2012.

Market-making

The market-making team continued its robust performance despite the backdrop of challenging market conditions, increasing the number and value of trades executed year on year. This positive momentum was demonstrated throughout the second half of 2012, with both revenue and volume significantly higher than for the comparable period in 2011.

The encouraging signs of recovery within the small cap segment of our business, which were indicated in our interim results, have been combined with a strong performance and growing presence in mid and large cap securities. This is demonstrated in our overall market share ranking which has seen a material and steady improvement throughout 2012. We also continue to be the third largest market-maker by number of stocks covered on the London Stock Exchange.

Research and Sales

After a sustained period where conditions were especially challenging, the market for secondary commissions showed signs of improvement in much of the second half of 2012. Whilst the economic environment retains challenges and 'dark pools' remain a feature of execution, there has also been some capacity reduction. In this market, we continued to be pleased to build upon recent market share gains. This progress is highlighted by the 23 per cent increase in secondary commission in the second half of the year leading to a 15 per cent increase for the full year.

Our excellent performance in this area reflected the high regard by our clients for our equity research, sales and trading teams, reflected in our strong standing in the Thomson Reuters survey and other external awards. We continued to focus on producing idea driven, in-depth and thematic research augmented by a step up in the corporate access that we provide investors. We also further harnessed the depth that our network of offices in London, Edinburgh and Liverpool provide investors, whilst making material in-roads in our presence in the Nordic Region, the Republic of Ireland and Northern Ireland.

We continued to build upon our strong reputation for providing a platform for senior management of leading companies to present to institutional investors, making good use of our strong presence across the country. Over the last year we ran a series of events for companies such as Associated British Foods, Astra Zeneca, Legal & General, Marks & Spencer, Randgold, St. James' Place, Talk Talk and Tesco. We staged a number of road shows for our growing list of corporate clients and also a 'reverse road show' for Nordic investors in oil services stocks plus an 'alternative banking seminar' including Fairpoint, Paragon, Provident Financial and Tesco Bank.

Our asset management business has launched Puma VCT 9 and Puma Heritage plc to provide financing for cash starved UK businesses by offering secured, asset-backed loans.

Corporate Finance

Increased corporate activity during 2012 resulted in a significantly improved contribution from our corporate finance and corporate broking team with revenue from corporate finance transactions increasing by approximately 32 per cent over 2011.

During the period the corporate finance team completed seven admissions (comprising three IPO's, two reverse takeovers, one transfer to AIM and one transfer to the Standard Segment of the Main Market), seventeen placings raising a total of over £120m for corporate clients, two takeovers and a number of other advisory led transactions.

Our natural resource business continued to grow during 2012 and all the admissions completed during the period involved companies in the mining and/or oil and gas sectors including Fastnet Oil & Gas plc and Cluff Natural Resources plc in the first half of the year and Wishbone Gold plc, Ironveld plc and Premier African Minerals Limited in the second half of the year.

During 2012 the team witnessed an increase in advisory work and advised on a number of notable transactions. One example, the refinancing of Serviced Office Group plc, involved the restructuring of the existing debt facilities totalling £23.7m and the raising of £9m of new equity for the company. Another example was Namakwa Diamonds Limited which, following our appointment as financial adviser in April 2012, completed a US$55m refinancing in June 2012, and in August 2012 the team advised the company on its move from the Premium Segment of the Main Market to AIM. We also advised on three takeover transactions during the year which included Ai Claims plc on its acquisition by Quindell Portfolio plc and Lees Foods plc on its management buyout.

Continued success in growing our retained client list was achieved during 2012 adding six new clients in the period including FBD Holdings plc (market capitalisation circa €410m). We are now retained adviser to 63 companies.

Alternative Asset Class Fund Management

Funds Under Management

Funds under management as at 31 December 2012 were £0.87 billion ($1.41 billion), compared to the £1.21 billion ($1.86 billion) at 31 December 2011.

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

Overview

As previously reported, having taken the decision to focus on areas where we have strong market niches, the asset management business is well advanced in developing its investment offerings focusing on two particular target audiences. First, we are seeking to cater to our existing client base of institutional and high-net worth investors; and secondly, we are building upon our strong track record in Venture Capital Trusts with the launch of a sub-brand for investment opportunities targeting the retail investment market, namely "Puma Investments".

Puma Investments has launched Puma VCT 9 and, since the year end, launched a new investment opportunity, Puma Heritage plc, to provide financing for cash starved UK businesses by offering secured, asset-backed loans. After a two year holding period, an investment in Puma Heritage is intended to benefit from Business Property Relief so that the value of the investment at death would not be liable to Inheritance Tax.

We believe that the asset management business is well-positioned to grow organically by focusing on the activities in which it has critical mass.

Venture Capital

Puma Venture Capital Trusts ("VCTs")

To date we have successfully launched eight Puma VCTs and are currently raising funds for Puma VCT 9 which will follow the same successful investment strategy, and build on the market-leading track record, of the previous Puma VCTs. Fund-raising for Puma VCT 9 has developed strongly and as at the date of publication has reached £12m (almost double the level achieved at the same stage last year) with a first close scheduled for 5 April 2013.

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-IV have each produced the highest total return of their respective peer groups.

Puma VCT V is also the top performing VCT of all those raised in 2007, whilst Puma High Income VCT (launched in 2010), Puma VCT VII (launched in 2011) and Puma VCT 8 have all started well and have paid out dividends to date of 21p, 10p and 10p respectively.

The on-going effects of the credit crisis mean that SMEs are still finding it difficult to access the funding they need from the traditional banks. Our investment team has a strong pipeline of investment opportunities, including many established companies which have substantial assets, over which a first charge can be taken.

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.

In June 2012, the shareholders voted overwhelmingly (by 94 per cent) in favour of continuing the fund for another five years, a strong endorsement of their commitment to this investment strategy and to the investment manager.

It last reported on 21 December 2012 when it had investments in 40 companies and had a NAV per share of 103.3p on 30 September 2012 after payment of a dividend of 3p per share. Following on from successful realisations within its portfolio, it has paid out cumulative dividends to shareholders of 8p per share. Since inception £58.9m has been realised, generating a gain of 89 per cent on these investments. This performance is impressive given the market conditions St Peter Port has experienced since its launch in 2007. St Peter Port reported that it was encouraged by the progress made by companies which are important elements of the portfolio and that it saw prospects in many cases for strong returns on the original investment.

In particular, St Peter Port reported that it is very encouraged by the progress made by companies in the portfolio such as Red Flat Nickel (which holds licences over two nickel laterite deposits), Mediatainment (the developer of a 3D TV platform) and Brazil Potash (which owns a potash mine in Brazil and which is investigating a flotation on Brazil's BOVESPA). St Peter Port considers that such investments offer the possibility of very large further gains if recent progress continues.

Real Estate

Puma Brandenburg Limited ("PBL")

PBL continues to perform well and, despite the uncertainties surrounding the Eurozone, is well placed due to a strong portfolio of quality assets in prime locations.

During the year, the mixed used property at Mulheim was sold for €6.95m, which was €230k above the March 2012 year end valuation, and all proceeds were utilised to amortise the senior loan.

In the second half of the year, PBL entered into interest rate swaps to lock in the extremely low swap rates currently available, thus providing additional comfort over a key element of financing over the medium-term. The Board of PBL is focused on extending debt that matures next year to provide medium term finance that matches its interest rate hedging policy.

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

Puma Hotels ("PHP")

As previously reported, the leases with Barceló Hotels and Resorts ("Barceló") were terminated on 25 April 2012 and from this time the hotels have been operated by PHP. Having negotiated a net termination fee of £20.3m, PHP utilised these proceeds to reduce its senior debt facility by approximately £20m.

We continue to provide asset management services. Since taking over the hotel operations on 25 April 2012, PHP – with Shore Capital's assistance – has been effective in mitigating the challenges that arise in taking over a hotel group of this scale. In pursuing its strategy to grow revenue and mitigate costs in non-guest facing areas, PHP has augmented the existing hotels team through a number of key appointments including Fredrik Korallus as Chief Executive Officer and Paul Nisbett as Commercial and Finance Director. The hotel management team possesses significant experience in the regional UK hotel sector and also benefits from Fredrik's global experience at Rezidor and Carlson, where he was Carlson's COO for the Americas and EVP Global Revenue Generation.

Hedge Funds

Puma Sphera

Puma Sphera continued to experience volatile markets in the second half of 2012 with the final days of the year producing the drama of averting the 'fiscal cliff' and the associated impact on world markets. Sphera returned 0.2 per cent in December compared to -3.7 per cent by the TA-100 index ("the Index"), continuing the substantial outperformance of the fund's domestic portfolio over recent months. The annualised return since inception of 14.9 per cent compares with a return of 6.6 per cent and 6.4 per cent from the Tel Aviv Stock Exchange and Dow Jones Credit Suisse Hedge Fund index respectively.

Our outlook for 2013 is for stock prices to remain positive, despite the multiple global and local challenges. The low cost of capital continues to be the most dominant theme in setting the direction for markets and risk appetite. January saw a solid start to 2013 with Puma Sphera returning 2.1 per cent compared with the TA-100 return of -0.2 per cent. Over the last 3 months, Puma Sphera has outperformed the Index by 7 per cent.

Principal Finance

Investment in German Telecoms Business

As previously reported, we had initially invested €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.

Since the year end Spectrum has, together with a wholly-owned subsidiary, purchased the balance of the outstanding loan stock in DBD and a further 28 per cent equity shareholding in DBD from Intel Capital. As a result, Spectrum now holds, directly and indirectly, substantially all of the economic interest in DBD. Spectrum has raised €3.3m of new capital from its investors, including Shore Capital, to fund this acquisition, and to enable it to finance DBD's further working capital needs. Shore Capital has invested €2.13m of this amount in cash and now holds 59.26 per cent of Spectrum.

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 0.24p for the year.

DBD holds radio spectrum licences in Germany in the 3.5 GHz range which is increasingly being deployed around the world for providing 4G mobile services. The German mobile market is the largest in Europe, with circa 115 million subscribers recorded in 2012 generating the largest sector revenues in Europe. As in other European mobile markets, the deployment of 4G in Germany continues to drive revenue growth as subscribers demand greater levels of data capacity. DBD's spectrum is ideally placed to provide mobile operators in Germany with additional data capacity for smart phones and tablet devices.

Spectrum acquired its original interest in DBD in March 2011. The only other two 3.5 GHz licences in Germany were recently acquired by E-Plus, the fourth largest mobile operator in Germany, further endorsing this exciting investment opportunity.

Employees

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 the operating performance achieved.

Current Trading and Prospects

We continue to make good progress as a Group, bucking the trend of difficult trading conditions within ECM, whilst re-positioning our asset management activities to offer clients a diverse range of products. The wider macro picture remains broadly unchanged with only anecdotal evidence suggesting a more substantive recovery is underway. Nevertheless, as a business we remain true to our heritage, providing capital to ambitious management teams whilst offering innovative investment opportunities for our clients.

Our increased investment in the German telecoms market leaves us very well placed with recent developments suggesting our persistence in nurturing this opportunity could deliver substantial future returns.

Howard Shore
Executive Chairman

19 March 2013

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. She chairs the Audit Committee.

Key Management

Michael van Messel Head of Finance and Tax

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, is the head of the Group's finance team and is also responsible for all operations at Shore Capital Group.

David Kaye Head of Asset Management

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 and having been Commercial Director and General Counsel for the Group, became CEO of the asset management division in May 2012. He is also a director of Puma Hotels plc and remains responsible for the Group's legal affairs.

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 has been highly ranked in fund manager surveys for many years. In 2011 he was No. 3 in the whole market in the Thomson Reuters UK survey and in 2012 he was voted 'Analyst of the Year' at the prestigious City AM awards. 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 and speciality finance sectors, and was rated second for coverage of smaller companies in these sectors in the last Reuters 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

Shore Capital Group Limited (the "Company" or 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 Z Marom and Mr J B 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 Company'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 four 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 2012. 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 2012	**10**	**4**	**1**
Number of meetings attended in 2012:			
Howard Shore	9	n/a	n/a
Lynn Bruce	10	4	n/a
Dr Zvi Marom	10	3	1
James Rosenwald III	9	3	1

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 Company's registered office during normal business hours and for 15 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 auditor 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 Company'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 2012.

Activities and business review

The main activities of the Group consist of investment related activities, 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. No interim dividend (2011: 0.25p per share) was paid during the year. The directors propose a final dividend of 0.50p per share (2011: 0.25p) making a total for the year of 0.50p per share (2011: 0.50p).

Capital structure

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, asset management in alternative assets and principal finance, 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 2012	31 December 2011
Howard Shore	**101,793,700**	100,293,700
Lynn Bruce	**300,000**	–
Dr Zvi Marom	**501,521**	501,521
James Rosenwald III	**2,532,000**	2,532,000

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 donations

The Group made charitable donations of £85,000 (2011: £161,000) during the year.

Acquisition of the company's own shares

No shares were repurchased during the year. Details of shares repurchased during the prior 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 22 March 2013:

	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
22 March 2013

Martello Court
Admiral Park
St Peter Port
Guernsey GY1 3HB

Statement of Directors' Responsiblities

The directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable rules 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 consolidated financial statements of the Shore Capital Group Limited for the year ended 31 December 2012 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and 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 Statement of Directors' Responsibilities 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 Group 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 Group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- 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
22 March 2013

Consolidated Income Statement

For the year ended 31 December 2012

	Notes	Excluding Spectrum/DBD 2012 £'000	Spectrum/DBD 2012 £'000	Total 2012 £'000	Total 2011 £'000
Revenue	1, 2	30,640	2,181	32,821	29,513
Administrative expenditure		(26,629)	(3,344)	(29,973)	(30,083)
Operating profit/(loss)	3	4,011	(1,163)	2,848	(570)
Interest income	4	314	–	314	288
Finance costs	5	(635)	–	(635)	(642)
Negative goodwill on acquisition of DBD		–	–	–	49
		(321)	–	(321)	(305)
Profit/(loss) before taxation	2	3,690	(1,163)	2,527	(875)
Taxation	7	(494)	–	(494)	(189)
Retained profit/(loss) for the year		3,196	(1,163)	2,033	(1,064)
Attributable to:					
Equity holders of the parent		2,577	(590)	1,987	(1,088)
Non controlling interests		619	(573)	46	24
		3,196	(1,163)	2,033	(1,064)
Earnings/(loss) per share					
Basic	10	1.06p	(0.24p)	0.82p	(0.45p)
Diluted	10	1.06p	(0.24p)	0.82p	(0.44p)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Notes	Excluding Spectrum/DBD 2012 £'000	Spectrum/DBD 2012 £'000	Total 2012 £'000	Total 2011 £'000
Retained profit/(loss) after tax for the year		**3,196**	**(1,163)**	**2,033**	(1,064)
Losses on revaluation of available–for–sale investments taken to equity		–	–	–	(1,064)
Gains on cash flow hedges		68	–	68	146
Income tax thereon		(17)	–	(17)	(39)
		51	–	51	107
Exchange difference on translation of foreign operations		(93)	31	(62)	11
Other comprehensive income for the year, net of tax		**(42)**	**31**	**(11)**	118
Total comprehensive income for the year, net of tax		**3,154**	**(1,132)**	**2,022**	(2,010)
Attributable to:					
Equity holders of the parent		2,540	(569)	1,971	(2,159)
Non controlling interests		614	(563)	51	149
		3,154	(1,132)	2,022	(2,010)
Comprehensive earnings/(loss) per share					
Basic	10	1.05p	(0.23p)	0.82p	(0.89p)
Diluted	10	1.04p	(0.23p)	0.81p	(0.87p)

Consolidated Statement of Financial Position

As at 31 December 2012

	Notes	2012 £'000	2011 £'000
Non–current assets			
Goodwill	13	**381**	381
Intangible assets	14	**4,055**	4,251
Property, plant & equipment	15	**11,669**	12,516
Available-for-sale investments	16	**4,105**	4,505
		20,210	21,653
Current assets			
Bull positions and other holdings at fair value	17	**4,058**	7,048
Available-for-sale investments	16	**16**	450
Trade and other receivables	18	**65,819**	42,681
Tax assets		**99**	629
Cash and cash equivalents	19	**30,443**	47,305
		100,435	98,113
Total assets	2	**120,645**	119,766
Ciabilities			
Bear positions		**(1,395)**	(786)
Trade and other payables	20	**(41,146)**	(25,267)
Derivatives		**(573)**	(360)
Tax liabilities		**–**	–
Borrowings 21		**(327)**	(345)
		(43,441)	(26,758)
Non–current liabilities			
Borrowings	21	**(10,549)**	(27,264)
Deferred tax liability	7	**(224)**	(279)
Provision for liabilities and charges	22	**(44)**	(36)
		(10,817)	(27,579)
Total liabilities	2	**(54,258)**	(54,337)
Net assets		**66,387**	65,429
Capital and reserves			
Called up share capital	24	**–**	–
Share premium		**336**	336
Merger reserve		**27,198**	27,198
Other reserves		**1,282**	1,187
Retained earnings		**30,954**	29,867
Equity attributable to equity holders of the parent		**59,770**	58,588
Non controlling interest		**6,617**	6,841
Total equity		**66,387**	65,429

Approved by the Board of Directors on 22 March 2013. 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 2012

Year ended 31 December 2011	Share capital £'000	Share Premium account £'000	Merger reserve £'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 profit 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	–	–	–	117	–	29	146
Tax on cash flow hedge	–	–	–	(31)	–	(8)	(39)
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 Statement of Changes in Equity continued

For the year ended 31 December 2012

Year ended 31 December 2012	Share capital £'000	Premium account £'000	Merger reserve £'000	Other Reserves £'000	Retained earnings £'000	Non controlling interest £'000	Total £'000
At 1 January 2012	–	336	27,198	1,187	29,867	6,841	65,429
Retained profit for the year	–	–	–	–	1,987	46	2,033
Revaluation of available for sale investments	–	–	–	–	–	–	–
Credit in relation to share based payments	–	–	–	54	–	–	54
Foreign currency translation	–	–	–	–	(58)	(4)	(62)
Valuation change on cash flow hedge	–	–	–	55	–	13	68
Tax on cash flow hedge				(14)		(3)	(17)
Equity dividends paid	–	–	–	–	(604)	–	(604)
Dividends paid to non controlling interests	–	–	–	–	(238)	(528)	(766)
Shares issued in respect of options exercised	–	–	–	–	–	–	–
Repurchase/cancellation of own shares	–	–	–	–	–	–	–
Deferred tax charge recognised directly in equity	–	–	–	–	–	–	–
Investment by non controlling interest in subsidiaries including Spectrum	–	–	–	–	–	252	252
At 31 December 2012	**–**	**336**	**27,198**	**1,282**	**30,954**	**6,617**	**66,387**

Consolidated Cash Flow Statement

For the year ended 31 December 2012

	Notes	2012 £'000	2011 £'000
Cash flows from operating activities		**2,848**	(570)
Operating profit/(loss)			
Adjustments for:			
Depreciation charges	15	871	868
Amortisation charges	14	243	–
Share-based payment expense		54	52
Loss on sale of fixed assets		–	27
Other Losses on AFS investments		871	4,682
Increase/(Decrease) in provision for National Insurance on options		8	(136)
Operating cash flows before movements in working capital		**4,895**	4,923
(Increase)/decrease in trade and other receivables		(23,138)	20,104
Increase/(decrease) in trade and other payables		16,160	(18,778)
Increase/(decrease) in bear positions		609	(557)
Decrease in bull positions		2,990	1,154
Cash generated by operations		**1,516**	6,846
Interest paid		(635)	(642)
Corporation tax paid		(35)	(1,979)
Net cash generated by operating activities		**846**	4,225
Cash flows from investing activities			
Purchase of fixed assets		(614)	(536)
Sale of fixed assets		–	11
Acquisition of subsidiary net of cash acquired	8	–	(914)
Purchase of additional intangible assets		(190)	(295)
Purchase of AFS investments		(82)	(74)
Sale of AFS investments		51	540
Interest received		314	288
Net cash utilised by investing activities		**(521)**	(980)
Cash flows from financing activities			
Shares/participations issued to Non Controlling Interests in subsidiaries including Spectrum		252	2,392
Shares issued in respect of exercise of options/share scheme		–	166
Repurchase of shares		–	(946)
Decrease/(increase) in borrowings		(16,079)	1,659
Dividends paid to Equity shareholders		(604)	(2,132)
Dividends paid to Non Controlling Interests		(766)	(1,568)
Net cash utilised by financing activities		**(17,197)**	(429)
Net (decrease)/increase in cash and cash equivalents		**(16,872)**	2,816
Effects of exchange rate changes		**10**	240
Cash and cash equivalents at the beginning of the year	19	**47,305**	44,249
Cash and cash equivalents at the end of the year	19	**30,443**	47,305

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

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

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 7 (amended)	*Disclosures – Offsetting Financial Assets and Financial Liabilities*
Annual Improvements to IFRSs	*(2009 – 2011) Cycle*
IFRS 9	*Financial Instruments*
IFRS 10	*Consolidated Financial Statements*
IFRS 10, IFRS 12 and IAS 27 (amended)	*Investment Entities*
IFRS 11	*Joint Arrangements*
IFRS 12	*Disclosure of Interests in Other Entities*
IFRS 13	*Fair Value Measurement*
IAS 27 (revised)	*Separate Financial Statements*
IAS 28 (revised)	*Investments in Associates and Joint Ventures*
IAS 32 (amended)	*Offsetting Financial Assets and Financial Liabilities*

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 7 (amended) will increase the disclosure requirements where netting arrangements are in place for financial assets and financial liabilities;
- IFRS 9 will impact both the measurement and disclosures of Financial Instruments;
- IFRS 12 will impact the disclosure of interests the Group has in other entities; and
- IFRS 13 will impact the measurement of fair value for certain assets and liabilities as well as the associated disclosures.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

General information

The Group is incorporated and registered in Guernsey. These financial statements are presented in pounds sterling, this being the currency of the primary economic environment in which the Group operates.

Basis of accounting

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.

1. Accounting Policies continued

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).

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.

1. Accounting Policies continued

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, 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 the tax expected to be payable or recoverable 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 forseeable 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 as 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 re-measured 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.

1. Accounting Policies continued

Business Combinations continued

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.

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.

1. Accounting Policies continued

Property, plant and 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 and 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.

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.

1. Accounting Policies continued

Financial assets and liabilities at FVTPL continued

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.

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.

1. Accounting Policies continued

Financial assets carried at amortised cost continued

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.

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.

1. Accounting Policies continued

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 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 2012	Equity Capital Markets £'000	Asset Management £'000	Central costs £'000	Balance Sheet and Principal Finance £'000	Spectrum/ DBD £'000	Consolidated £'000
Revenue	22,653	6,331	10	1,646	2,181	32,821
Results						
Depreciation	157	153	50	511	–	871
Interest expense	72	–	11	552	–	635
Profit/(loss) before tax	5,056	955	(2,018)	(303)	(1,163)	2,527
Assets	63,792	3,830	1,179	46,314	5,530	120,645
Liabilities	(37,965)	(1,184)	(966)	(10,875)	(3,268)	(54,258)

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

2. Segment Information continued

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 Europe.

3. Operating Profit

	2012 £'000	2011 £'000
Operating profit has been arrived at after charging:		
Depreciation	871	868
Employee costs	14,322	13,478
Property lease rentals	527	633
Loss on disposal of fixed assets	–	27
Exchange differences, excluding those arising on financial instruments		
Exchange differences	30	19

4. Interest Income

	2012 £'000	2011 £'000
Bank interest	256	256
Other interest receivable	58	32
	314	288

5. Finance Costs

	2012 £'000	2011 £'000
Interest on bank overdrafts and loans	552	623
Other interest payable	83	19
	635	642

6. Employees and Directors

a) Employee numbers

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

	2012 No.	2011 No.
Equity Capital Markets – Securities	71	70
– Corporate Advisory	14	14
Asset Management	36	38
	121	122

b) The costs incurred in respect of these employees comprise

	2012 £'000	2011 £'000
Salaries and commission	12,907	12,111
Social security costs	1,191	1,237
Pension costs	224	130
	14,322	13,478

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 2012, there were 16,750,098 (2011: 19,250,098) 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:

	2012		2011	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at beginning of year	19,250,098	19.7p	20,077,371	19.7p
Granted during the year	1,250,000	25.0p	–	n/a
Forfeited during the year	(3,750,000)	25.0p	–	n/a
Exercised during the year	–	n/a	(827,273)	20.0p
Outstanding at the end of the year	16,750,098	18.7p	19,250,098	19.7p
Exercisable at the end of the period	15,650,098		17,200,098	

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 2012 had a weighted average remaining contractual life of 3 years 11 months (2011: 5 years 1 month).

Using a Black-Scholes option pricing model, the aggregate of the estimated fair value of the options granted in 2012 was £59,000 (2011: £nil). The inputs into the Black-Scholes model were as follows:

	2012	2011
Weighted average exercise price	25p	n/a
Expected volatility	0.2575	n/a
Expected life	10 years	n/a
Risk-free rate	0.50%	n/a
Expected dividend yields	1.00%	n/a

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

In 2012, the Group recognised total expenses of £54,000 (2011: £52,000) related to equity-settled share-based payment transactions.

6. Employees and Directors continued

d) Emoluments of the Directors of the Company

2012	Gross salary £'000	Bonus, commission and other income £'000	Pension Contributions £'000	Benefits £'000	Total £'000
Howard Shore	**200**	**430**	**–**	**41**	**671**
Lynn Bruce	**40**	**–**	**–**	**–**	**40**
Dr Zvi Marom	**40**	**–**	**–**	**–**	**40**
James Rosenwald	**40**	**–**	**–**	**–**	**40**
	320	**430**	**–**	**41**	**791**

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

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

The closing price of the shares at 31 December 2012 was 17.75p (2011: 16.50p) and the range during the year was 14.50p to 19.50p.

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 Puma Brandenburg Limited ("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 arm's length terms and conditions. See also note 27c.

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:

	2012 £'000	2011 £'000
Salaries and other short-term benefits	**2,610**	2,670
	2,610	2,670

7. Tax on Profit on Ordinary Activities

	2012 £'000	2011 £'000
The tax charge comprises		
Provision for United Kingdom corporation tax charge/(credit) at 24.5% (2011: 26.5%)	**566**	(75)
Adjustments in respect of prior years	**–**	(19)
Movement in deferred tax	**(72)**	283
	494	189

Tax in Guernsey is charged at nil%. Tax on the Group's UK subsidiaries is charged at 24.5% (2011: 26.5%) as detailed below:

	2012 £'000	2011 £'000
Profit/(Loss) on ordinary activities before tax	**2,527**	(875)
Tax thereon at 24.5% (2011: 26.5%)	**619**	(232)
Effects of:		
Expenses not deductible for tax purposes	**141**	260
(Income)/losses not (chargeable)/deductible to tax	**(156)**	165
Share based payments	**13**	14
Capital allowances in excess of depreciation	**(154)**	(172)
Temporary differences	**195**	177
Prior year adjustment	**(165)**	(19)
Other	**1**	(4)
	494	189

With effect from 1 April 2012, the rate of UK corporation tax reduced from 26% to 24%. As a result the average tax rate on the profit before tax for the Group's UK activities for 2012 was 24.5% (2011: 26.5%). It has been announced that the UK corporation tax rate will reduce to 23% with effect from 1 April 2013.

Deferred Taxation

	Share-based payments £'000	Temporary differences £'000	Total £'000
At 1 January 2012	66	(345)	(279)
To income	–	72	72
Charge to equity (cash flow hedge)	–	(17)	(17)
At 31 December 2012	**66**	**(290)**	**(224)**

8. Acquisition of subsidiary

In the prior year, 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.

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

Recognised amounts of assets acquired and liabilities assumed:

i. Spectrum

As a newly incorporated company there were no prior assets or liabilities when Shore Capital subscribed for shares of Spectrum. The company's only asset was the cash subscribed and accordingly there was no goodwill. The fair value of the non controlling interests in Spectrum was 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 (liabilities)/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 represented equipment that was already installed and available for new customers, and the intangible fixed assets represented 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 represented loans to the company from its shareholders. These obligations were only repayable to the extent that DBD had surplus net assets and this was the basis used to determine their fair value. This fair value was then 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 was 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 £2,181,000 (2011: £2,289,000) and a loss of £1,163,000 (2011: £1,252,000) to the results of the Group.

Goodwill

The negative goodwill that arose on acquisition of £49,000 comprised the amount by which the fair value of the expected benefit of owning the rights to the spectrum held by DBD exceeded the acquisition price paid.

9. Dividends

	2012 £'000	2011 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2011 of 0.25p per share (2010 final dividend: 0.625p)	604	1,528
No interim dividend for the year ended 31 December 2012 (2011: 0.25p)	–	604
	604	2,132
Proposed final dividend for the year ended 31 December 2012 of 0.50p per share (2011: final dividend of 0.25p)	1,208	

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:

	2012 Basic	2012 Diluted	2011 Basic	2011 Diluted
Earnings/(loss) (£)	1,987,000	1,987,000	(1,088,000)	(1,088,000)
Number of shares	241,639,601	243,361,010	243,038,613	247,529,383
Earnings/(loss) per share	0.82	0.82	(0.45)	(0.44)
Comprehensive earnings/(loss) (£)	1,971,000	1,971,000	(2,159,000)	(2,159,000)
Number of shares	241,639,601	243,361,010	243,038,613	247,529,383
Earnings/(loss) per share	0.82	0.81	(0.89)	(0.87)

Calculation of number of shares

	2012 Basic	2012 Diluted	2011 Basic	2011 Diluted
Weighted average number of shares	241,639,601	241,639,601	243,038,613	243,038,613
Dilutive effect of share option schemes	–	1,721,409	–	4,490,770
	241,639,601	243,361,010	243,038,613	247,529,383

As at 31 December 2012 there were 241,639,601 ordinary shares in issue (2011: 241,639,601). Movements in the number of shares in issue during the year are set out in note 24.

11. Lease Commitments

	2012 £'000	2011 £'000
Minimum lease payments under operating leases recognised as an expense during the year	628	633

At 31 December 2012 the Group had outstanding commitments for future minimum lease payments under operating leases, which fall due as follows:

Operating leases

	2012 £'000	2011 £'000
Amounts payable in under one year	628	633
Amounts payable between one and five years	1,193	1,362
Amounts payable between five and ten years	328	587
	2,149	2,582

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

12. Categories of Financial Assets and Liabilities

At 31 December 2012	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	–	–	–	–	30,443	30,443
Trading assets (bull positions)	37	4,021	–	–	–	4,058
Trade receivables in the course of collection	–	–	–	–	59,102	59,102
Loans	–	–	3,166	–	–	3,166
Financial investments	–	–	–	4,121	–	4,121
Other assets	–	–	–	–	2,756	2,756
	37	4,021	3,166	4,121	92,301	103,646
Tax assets						99
Accrued income						795
Goodwill						381
Intangible assets						4,055
Property, plant and equipment						11,669
Total assets per balance sheet						120,645
Financial liabilities						
Bank overdrafts and borrowings	–	–	–	–	10,876	10,876
Trading positions (bear positions)	–	1,395	–	–	–	1,395
Trade creditors in the course of collection	–	–	–	–	2,368	2,368
Derivatives	–	573	–	–	–	573
Other liabilities	–	–	–	–	37,478	37,478
	–	1,968	–	–	50,722	52,690
Accruals						1,300
Tax liabilities						–
Provision for liabilities and charges						44
Deferred tax liability						224
Total liabilities per balance sheet						54,258

12. Categories of Financial Assets and Liabilities continued

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 and 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

13. Goodwill

Cost	Goodwill arising on the acquisition of non controlling interest in subsidiary £'000
At 1 January and 31 December 2012	381

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

14. Intangible assets

Cost	£'000
On acquisition of DBD	4,174
Additions post acquisition	295
Retranslation movement	(218)
At 31 December 2011	4,251
Additions post acquisition	190
Retranslation movement	(143)
At 31 December 2012	**4,298**
Amortisation	
At 1 January 2012	–
Charge for the year	243
At 31 December 2012	**243**
Carrying amount	
At 31 December 2012	**4,055**
At 31 December 2011	4,251

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

DBD owns two separate spectrum licences in Germany, a national licence that runs to 2021, and a regional licence that runs into perpetuity. The national licence is being amortised on a straight line basis over its remaining life.

15. Property, Plant & Equipment

	Leasehold premises £'000	Fixtures and equipment £'000	Asset rental £'000	Motor vehicles £'000	Total £'000
Cost					
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
Additions	–	614	–	–	614
Disposals	–	(10)	–	–	(10)
Retranslation movement	–	(7)	(703)	(2)	(712)
At 31 December 2012	**890**	**2,798**	**12,517**	**214**	**16,419**
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
Charge for the year	99	238	511	23	871
Retranslation movement	–	(3)	(119)	–	(122)
Disposals	–	(10)	–	–	(10)
At 31 December 2012	**766**	**1,496**	**2,390**	**98**	**4,750**
Carrying amount					
At 31 December 2012	**124**	**1,302**	**10,127**	**116**	**11,669**
At 31 December 2011	223	930	11,222	141	12,516
At 1 January 2011	354	702	11,551	103	12,710

16. Investments

Available-for-Sale Investments

	Current			Non current		
	Listed investments £'000	Unlisted investments £'000	Total £'000	Listed investments £'000	Unlisted investments £'000	Total £'000
Cost						
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	–	5,760	5,760	3,554	1,626	5,180
Additions	–	10	10	–	72	72
Disposals	–	(288)	(288)	(24)	–	(24)
At 31 December 2012	**–**	**5,482**	**5,482**	**3,530**	**1,698**	**5,228**
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 loss	–	(4,525)	(4,525)	(124)	25	(99)
At 31 December 2011	–	(5,310)	(5,310)	(408)	(267)	(675)
Revaluation in the year	–	–	–	(330)	(119)	(449)
Disposals	–	266	266	1	–	1
Impairment loss	–	(422)	(422)	–	–	–
At 31 December 2012	**–**	**(5,466)**	**(5,466)**	**(737)**	**(386)**	**(1,123)**
Valuation						
At 31 December 2012	**–**	**16**	**16**	**2,793**	**1,312**	**4,105**
At 31 December 2011	–	450	450	3,146	1,359	4,505
At 1 January 2011	–	–	–	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				
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 held 58.35% of the ordinary shares and voting rights in, DBD Deutsche Breitband Dienste. As at 31 December 2012, the Company had 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 were held by external investors. See also note 27b.

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

	2012 £'000	2011 £'000
Held For Trading		
Listed holdings at market value		
Equities	2,711	1,852
Debt instruments	1,310	1,634
	4,021	3,486
Designated at fair value		
Listed holdings at market value:		
Debt instruments	–	1,608
Unlisted holdings:		
Equities	–	1,913
Debt	–	–
Invested in own fund and products	–	41
Other (including hedge funds)	37	–
	37	3,562
	4,058	7,048

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

	2012 £'000	2011 £'000
Trade receivables	59,102	35,765
Other receivables	2,756	2,469
Loans	3,166	3,311
Prepayments and accrued income	795	1,136
	65,819	42,681

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 £103,000 (2011: £280,000).

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

	2012 £'000	2011 £'000
Between 31 and 60 days	229	71
Between 61 and 90 days	–	115
Greater than 90 days	11	210
	240	396
Amounts not yet due	65,579	42,285
Trade receivables	65,819	42,681

19. Cash and Cash Equivalents

	As at 1 January 2012 £'000	Cashflows £'000	**As at 31 December 2012 £'000**
Cash at bank and in hand	47,305	(16,862)	**30,443**
Overdraft	–	–	**–**
	47,305	(16,862)	**30,443**

20. Trade and Other Payables

	2012 £'000	2011 £'000
Trade creditors	**34,822**	18,085
Other creditors	**4,412**	5,127
Other taxation and social security	**612**	1,150
Accruals and deferred income	**1,300**	905
	41,146	25,267

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

21. Borrowings

	2012 £'000	2011 £'000
Borrowings at amortised cost		
Bank loans	**9,714**	25,605
Other loans	**1,162**	2,004
Total Borrowings	**10,876**	27,609
Amount due to be repaid within 12 months	**327**	345
Amount due to be repaid after 12 months	**10,549**	27,264

As at 31 December 2012	**Multi currency loan facility £'000**	**Amortising USD loan facility £'000**	**Spectrum/ DBD £'000**	**Total £'000**
Bank loans	**–**	**9,714**	**–**	**9,714**
Other loans	**–**	**–**	**1,162**	**1,162**
	–	**9,714**	**1,162**	**10,876**

As at 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 borrowings	–	–	2,004	2,004
	15,000	10,605	2,004	27,609

During the year, the Group repaid and cancelled its multi-currency loan facility. The Group also has a GBP facility 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:

	2012 %	2011 %
Bank overdrafts	**2.31**	2.25
Bank loans	**5.31**	5.05

The other principal features of the Group's borrowing's are 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 (2011: 2.25%) and was determined on a base rate plus a margin. Both facilities were undrawn as at 31 December 2012.

(ii) an amortising loan of $15,791,000 (2011: $16,322,000) 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.

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 (2011: £15,000,000) was undrawn on the multi-option facility and £5,000,000 (2011: £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

	2012 £'000	2011 £'000
At 1 January	**36**	172
Credit in the year	**8**	(136)
At 31 December	**44**	36

This provision will be utilised when staff exercise their options during the period of 1 January 2013 to 31 January 2022.

23. Capital Commitments

As at 31 December 2012, there were no amounts which were contracted for but not provided in the financial statements (2011: £nil).

24. Called Up Share Capital

Shore Capital Group plc – ordinary shares of nil par value	Number of shares	£'000
At 1 January 2011	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	–
Shares issued in respect of options exercised	–	–
Shares repurchased and cancelled	–	–
At 31 December 2012	**241,639,601**	**–**

In 2012 there were no (2011: 827,273) 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 2012 the company did not repurchase and cancel any ordinary shares of nil par value. In 2011, the company repurchased and cancelled 3,638,549 ordinary shares of nil par value at an average price of 26.0p. 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

2012	Designated at fair value £'000	Held for trading £'000	Available-for-sale securities £'000	Total £'000
Equities	(35)	8,916	(252)	8,629
Debt	775	–	–	775
Alternative Assets	–	–	–	–
	740	8,916	(252)	9,404
2011				
Equities	(165)	11,341	(968)	10,208
Debt	(133)	–	–	(133)
Alternative Assets	–	–	(64)	(64)
	(298)	11,341	(1,032)	10,011

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 2012. 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:

	2012 Net equity £'000	2012 Change in price of UK equities %	2012 Effect on profit and on equity £'000	2011 Net equity £'000	2011 Change in price of UK equities %	2011 Effect on profit and on equity £'000
Listed equities (net)	1,316	10%	132	1,066	10%	107
Listed holdings in own funds and products	–	10%	–	–	10%	–
Listed investments	2,793	10%	279	3,146	10%	315

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:

	2012 £'000	2011 £'000
Held in United States dollars	–	3,530
Held in Euros	3	20
	3	3,550

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 loss of £9,000 (2011: £27,000 profit).

As at the year end the fair value of forward contracts which were hedging bull positions and other holdings was a net liability of £35,000 (2011: £246,000 net asset). The related notional contracts as at 31 December 2012 were £5,609,000 (2011: £11,819,000). These are all due to mature in January 2013.

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:

	2012		2011	
	Euro £'000	US Dollar £'000	Euro £'000	US Dollar £'000
5% Stronger against GBP	139	(438)	200	(301)
5% Weaker against GBP	(126)	396	(181)	272

Profits shown as positives, losses as negatives.

c) Interest Rate Risk

The Group's 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 credit facility which are both renewable annually. These facilities pay interest at rates linked to money market rates. 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 31 March 2018, being the maturity date of the loan. The bank borrowings are described in more detail in note 21.

25. Financial Instruments continued

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:

	2012 £'000	2011 £'000
+100 basis point movement in interest rates	**36**	40
As percentage of total shareholders' equity	**0.060%**	0.068%

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

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 five trade receivables counterparty exposures are as follows:

	2012 £'000
TD Waterhouse	**2,667**
Pershing Securities Limited	**680**
Redmayne Bentley	**301**
Jarvis Investment Management Plc	**221**
Barclays Bank plc	**250**
	4,119

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

25. Financial Instruments continued

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:

2012	**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	**–**	**1,395**	**–**	**–**	**–**	**1,395**
Trade payables	**34,822**	**–**	**–**	**–**	**–**	**34,822**
Derivatives	**–**	**35**	**–**	**345**	**193**	**573**
Bank loans and overdrafts	**–**	**152**	**453**	**2,326**	**8,196**	**11,127**
Other liabilities	**–**	**5,024**	**–**	**–**	**–**	**5,024**
Accruals	**–**	**1,300**	**–**	**–**	**–**	**1,300**
	34,822	**7,906**	**453**	**2,671**	**8,389**	**54,241**

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
	18,085	8,099	1,123	18,389	9,438	55,134

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).

25. Financial Instruments continued

f) Fair value of financial instruments continued

2012	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	2,793	16	1,312	4,121
Bull positions and other holdings at fair value	4,058	–	–	4,058
Total financial assets	6,851	16	1,312	8,179
Bear positions	1,395	–	–	1,395
Derivatives	–	573	–	573
Total financial liabilities	1,395	573	–	1,968

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

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 2012 £'000	Losses recorded in profit or loss £'000	Purchases and transfers £'000	Sales and transfers £'000	At 31 December 2012 £'000
Total financial assets	1,359	(119)	72	–	1,312

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

	2012 £'000	2011 £'000
Group		
Capital resources per statement of financial position	**66,387**	65,429
Less non EU resources*	**(34,174)**	(32,752)
Capital resources*	**32,213**	32,677
Less Capital Resources Requirement	**(8,062)**	(7,837)
Surplus capital resources	**24,151**	24,840

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 permits 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

a) Dividend

The Company has proposed a final dividend of 0.50p per share (see note 9).

b) Further investment in Deutsche Breitband Dienste GmbH ("DBD")

On 7 February 2013, Spectrum Investments Limited ("Spectrum") has, together with a wholly-owned subsidiary, purchased the balance of the outstanding loan stock in DBD and a further 28 per cent equity shareholding in DBD from Intel Capital. As a result, Spectrum now holds, directly and indirectly, substantially all of the economic interest in DBD. Spectrum has raised €3.3 million of new capital from its investors, including Shore Capital, to fund this acquisition, and to enable it to finance DBD's further working capital needs. Shore Capital has invested €2.13 million of this amount in cash and now holds 59.26 per cent of Spectrum.

c) Related Party Transaction

On 14 March 2013 the Group agreed a two year extension to an existing unsecured loan of €3,500,000 that is due from PBL on 25 March 2013. The loan is held on arm's length terms and conditions and the Group will continue to receive interest at 5.345% per annum. PBL is a related party of the Group as it has a high degree of common ownership following its de-merger from the Group.

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 11.00 a.m. on Monday, 9 September 2013 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 2012, together with the reports of the Directors and Auditors thereon.

2 To re-elect James Rosenwald 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-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:

4 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 2014 or, if earlier, 8 December 2014, 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:

5 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 30 April 2013 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 2014 annual general meeting or 8 December 2014, whichever is the earlier.

BY ORDER OF THE BOARD

Lynn Bruce
Company Secretary
Dated: 30 April 2013

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. In the case of a corporate shareholder the form of proxy should be given under its seal or signed on its behalf by an attorney or duly authorised signatory. In the case of joint holders the form of proxy should be signed by the senior holder and the names of all joint holders should be shown. A vote tendered by the senior holder shall be accepted to the exclusion of all other joint holders. 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 Resolution 2: Information about the Director who is proposed by the Board for re-election at the Annual General Meeting is shown on page 12 of the Annual Report and Accounts 2012.

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 4 and 5 to be proposed at the Annual General Meeting

On page 56 of the Report is the notice of Annual General Meeting which will be held on Monday, 9 September 2013. Set out below is a brief explanation of the resolutions comprising special business to be proposed at the Annual General Meeting.

Resolution 4

In certain circumstances it may be advantageous for the Company to purchase its own shares. Resolution 4, 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 2014 Annual General Meeting or 8 December 2014, 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 16,750,098 Ordinary Shares are reserved for the exercise of options granted under the Company's Share Option Plan which equates to 6.93 per cent. of the Company's issued share capital. This percentage would increase to 8.15 per cent. if the authority to purchase the Company's own shares is exercised in full.

Resolution 5

Resolution 5 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 30 April 2013 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 2014 Annual General Meeting or 8 December 2014, 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

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