

# Annual Report 2009



**MERCHANT  
SECURITIES** 

# Annual Report and Financial Statements

for the year ended 31 March 2009

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## Company Information

for the year ended 31 March 2009

<b>Directors:</b>	<b>J L Green</b> Chairman <b>P T Claridge</b> Chief Executive Officer <b>J R A East</b> Executive Director <b>J S H Foster-Powell</b> Chief Financial Officer <b>C B Price</b> Non-Executive Director	
<b>Company Secretary:</b>	<b>R-M Sexton</b>	
<b>Registered Office:</b>	John Stow House 18 Bevis Marks London EC3A 7JB	
<b>Registered Number:</b>	05347651	
<b>Auditors:</b>	<b>Horwath Clark Whitehill LLP</b> Chartered Accountants and Registered Auditors St. Bride's House 10 Salisbury Square London EC4Y 8EH	
<b>Nominated Adviser and Broker:</b>	<b>Arden Partners plc</b> Nicholas House 3 Laurence Pountney Hill London EC4R 0EU	
<b>Registrar:</b>	<b>Capita Registrars Limited</b> Northern House Woodsome Park Fenay Bridge Huddersfield West Yorkshire HD8 0GA	
<b>Solicitors:</b>	<b>Nabarro LLP</b> Lacon House 84 Theobald's Road London WC1X 8RW	<b>Speechly Bircham LLP</b> 6 St. Andrew Street London EC4A 3LX
<b>Abbreviations:</b>	MSPLC or Company or Group MSGL EWH* JEP IDMSA	Merchant Securities plc Merchant Securities Group Limited East, Worldge Holdings Limited John East & Partners Limited Dom Maklerski IDM Spółka Akcyjna

\*The principal operating business of EWH is John East & Partners Limited

## Chairman's Statement

### Introduction

In presenting our results for the year ended 31 March 2009, I am pleased to report that, notwithstanding the turmoil in financial markets, Merchant Securities has made significant progress, both financially and in the development of its strategy.

Decisive action by the board enabled the Company to turn around performance in the second half, so earning a small pre tax profit in that period. The Company has thus not only weathered the financial crisis, but emerged stronger and capable of capitalising on the opportunities that are likely to materialise in the current trading environment.

The Group earned a pre-tax profit in the second half of £79,000 before goodwill impairment, revaluation of investments and non-recurring items. The costs of reorganising the business and difficult market conditions for the year ended 31 March 2009 resulted, however, in a pre-tax loss for the year as a whole of £502,000 on the same basis.

The Board has reviewed the goodwill and intangible assets carried on its balance sheet in accordance with International Financial Reporting Standards. Following this review, the Board has decided to take a charge of £647,000 for the impairment of intangible assets and a further charge of £2,624,000 relating to the impairment of goodwill. Neither of these amounts has any impact on the Group's financial position, tangible net assets, cash balances or regulatory capital. Your Board has decided to take this approach to reflect the changed market conditions currently prevalent and which impact the main operating subsidiaries of the Company.

### Strategic development

I referred in my statement last year to the need to focus and develop our core activities as well as to strengthen the infrastructure of the business. The Group strengthened its balance sheet in June 2008 through the issue of new share capital. Patrick Claridge, formerly the chief operating officer, was appointed chief executive in August 2008. He has instigated a review of the business which has led to an elimination of excess costs and an increased focus on core activities, namely private client investment services, institutional research and trading, corporate finance for public and private companies and corporate broking.

The Company has no debt and a strengthened balance sheet. The board, therefore, believes that the Company is well placed to exploit the current market conditions, which it believes may present opportunities for organic growth and growth through carefully targeted acquisitions or appointments. Each of the Company's core activities is charged with the objective of growing its business and achieving recurring revenue streams.

The Board intends to transfer the business of MSGL into JEP which will become the single entity carrying out all the activities currently conducted within the Group. The name of the trading subsidiary will be Merchant John East Securities Limited and it is intended that the process will be completed by 30 September 2009. Apart from establishing a single brand, the reorganisation will bring further cost savings and streamline the Company's structure by removing duplication of finance and compliance functions.

### Operational and financial review

We announced in April that the Company expected to make a modest profit in the second half of the year and, on the basis set out above, this was achieved. For the year ended 31 March 2009, the Company made a pre tax loss of £4,577,000 on turnover of £5,425,000. As also set out above, the Group made a loss of £502,000 before goodwill impairment, revaluation of investments and non-recurring items. A profit was made in the second half of the year of £79,000 on the same basis. The non-recurring losses of £4,074,000, relate to the costs of reorganising the Group, continuing amortisation of the intangible asset arising from the acquisition of JEP, an additional write-down of intangible assets and goodwill, together with the impact of a decision at the half year to write down all of the Company's investments to nil.

Following the write-down of our investment portfolio in the first half and the decision to write-down the goodwill and intangible assets there were no other exceptional items in the second half. As at 31 March 2009, the Company had net tangible assets of £2.9 million, cash of £2.2 million and no debt. The directors believe that the Company has a comfortable capital cushion over its minimum regulatory capital requirement.

## Chairman's Statement

### Current trading

I have spoken before of the Board's strategy of developing a diversified financial services group and over recent months we have further enhanced the range of services, products and expertise within various core areas of the Company.

The institutional business has been substantially enhanced by its daily research product, Mercantalyt. This is a strongly differentiated publication which is received by an ever expanding list of institutional clients and is generating worthwhile and growing revenue.

Since the year end, the volumes in our private client wealth management and contracts for difference business have continued to grow. JEP had 38 retained clients at the year end and whilst there is little IPO activity, it continues to receive income from retainers, secondary issues and general advisory work. The private equity team continues to raise funds for private companies in the sub £10 million sector.

Within the private client business, we are looking for ways to differentiate ourselves from our competitors. This has been achieved through the issue of various structured investment products designed to manage current market risk. These have been well received by clients.

Current year trading has continued to improve and the Group has made a modest profit before and after taxation in the first quarter of 2009-10.

### Board changes

John Foster-Powell was appointed to the board on 10 November 2008 as Chief Financial Officer.

### Outlook

A year ago we were entering the eye of the storm and it would be folly to suggest that the coming year will be anything other than difficult. The progress made over the last year has, however, been heartening and I would like to express my thanks to Patrick, the senior management team and all members of staff who have worked hard and successfully in very tough conditions. It is particularly pleasing to note that the Group has started the first quarter of the current financial year with a modest profit before taxation.

With the private client division's continued issue of innovative structured investment products, a full year's contribution from Mercantalyt, the prospects of an improvement in corporate finance activity and the cost efficiencies arising from carrying on all trading within one entity, I am confident that the Board and senior management have taken the right action to position the Company to deliver value to shareholders and an improved performance in the current year is in prospect.

**John Green**

Chairman

29 July 2009

## Report of the Directors

The directors present their report on the affairs of the Group and the financial statements for the year ended 31 March 2009.

### Principal activities

The principal activities of the Group are the provision of investment services to private clients and funds, the raising of venture capital funds, the provision of a specialist execution and dealing service to institutional clients, and the provision of corporate finance advisory services. Investment services provided include research, investment advice and execution, in a range of products including equities, derivatives, bonds, equity-linked structured products and collective investment schemes. These activities are all provided by Merchant Securities Group Limited ("MSGL"). Following the acquisition in 2007 of John East & Partners Limited ("JEP") the Group has expanded its activities in corporate finance advisory services, the raising of private equity capital, AIM listings and the placing of shares. The Group has two principal operating subsidiaries, both of which are authorised by the Financial Services Authority ("FSA").

The Group trades from its offices in London and from branch offices in Leeds, Manchester and Guildford. Marketing and servicing of the Group's clients are undertaken from these offices whilst the settlement, operations, research and strategic activities are centralised from the London head office.

### Review of the business and key financial performance indicators

The results for the year and the financial position of the Group are as shown in the financial statements.

The Chairman's Statement includes a review of the business, and the gross profit deriving from its principal trading activities is shown in Note 4. The directors believe that each of the five key business activities of the Group can be expanded and can generate increased profitability in the future. Key financial performance indicators include revenue, client numbers and gross margin. Current and prior year figures for revenue and profit before tax, goodwill impairment, revaluation of investments and non-recurring items are given in the Consolidated Income Statement. During the year ended 31 March 2009 the Group transacted with approximately 854 private and institutional clients compared with approximately 692 during the year ended 31 March 2008.

### Other key performance indicators

During the year the Group has successfully expanded its core activities with the recruitment of key specialists. Following last years review the Group completed the outsourcing of its back office and settlement systems to Pershing Securities Limited. In the current climate the Group sees considerable scope for consolidation and is actively looking for acquisitions in all areas of its business.

### Strategy and business objectives

The Group has five key areas of activity which are: institutional and private client broking, trading CFDs and corporate finance and corporate broking. These can be split into two distinct segments or 'product lines' being Private and institutional clients including trading CFD's, and Corporate finance & private equity. The results for the current year and prior year of the two segments and their assets and liabilities at the balance sheet date are disclosed in the notes to the financial statements.

The Group raised an additional £1.58 million as a result of a share placing and plans to expand each of the key areas when opportunities allow. It is actively seeking to expand by the acquisition of teams of brokers and smaller companies offering complementary services to allow the business to utilise its infrastructure effectively and increase the profitability of its existing trading activities while continuing to review opportunities for further expanding its core activities.

### Dividends

No dividends were paid or proposed during the year.

## Report of the Directors

### Principal risks and uncertainties

The directors consider that the key risks to the Group are market environment, personnel and reputational risk. Secondary risks are credit risk, liquidity risk and operational risk. One of the Group's primary credit risks is in respect of receivables from clients and counterparties. The risk of a client defaulting is mitigated by the Group's right to dispose of clients' positions in the case of default. The credit risk relating to cash and cash equivalents is considered to be limited as the counterparties are banks with high credit ratings assigned by international credit rating agencies. Counterparties are all regulated entities in major financial markets. Exposure is spread over a large number of clients and counterparties.

The Group's risk management objectives and policies are outlined below and in Note 20.

### Financial risk management objectives and policies

The directors consider that their main risk management objective is to monitor and mitigate the key risks to the Group which are considered to be principally personnel risk, reputational risk, credit risk, liquidity risk and operational risk. Several high-level procedures are already in place to enable all risks to be controlled. These include profit forecasts by business segment, monthly management accounts and comparisons against forecast, monthly meetings of the full Board of Directors, and more regular senior management meetings. The Risk Committee monitors and mitigates the principal risks facing the Group. The Risk Committee meets at least quarterly and presents its findings to the Board and the Audit Committee.

The Group currently derives most of its income from activities on behalf of clients who normally hold assets and cash balances which are under our control. Debts in respect of other business activities are monitored by the finance department. Other risks, including operational and reputational risks are under constant review at senior management level by the executive directors and senior managers at their regular meetings (generally at least fortnightly), and by the full board at their monthly meetings.

The Group operates in a heavily regulated financial services sector. The Group monitors developments in regulation, assesses the impact on the business, and implements any changes that will be required to meet these requirements.

The Company does not take any positions for its own account. It trades for clients as agent only. Accordingly, the Company has no positional risk exposure, neither is it exposed to foreign exchange risk, interest rate risk nor any significant credit risk.

### Directors

The directors of the Company and their interests in the issued ordinary share capital of the Company at the year end, was as follows:

	31 March 2009	1 April 2008
P T Claridge	2,348,028	1,348,028
J R A East	4,495,000	3,495,000
J S H Foster-Powell (appointed 10 November 2008)	500,000	–
J L Green*	125,431	125,431
C B Price	416,009	416,009

\*82,574 shares held by Ms Kathleen Green, wife of John Green.

Messrs. Price and Green act in a non-executive capacity.

F A B Fabrizi resigned 13 June 2008 and C M Hyde resigned 7 August 2008.

## Report of the Directors

### Creditors payment policy

It is the Group's policy to pay stockbroking creditors on settlement day or when stock has been delivered, whichever is later, and to pay suppliers in accordance with agreed contractual terms. Amounts due to suppliers at the balance sheet date represent approximately 36 days credit based on the total amounts of goods and services invoiced by them during the year.

### Political and charitable donations

The Group made no charitable or political donations during the year (2008: £Nil).

### Substantial shareholdings

At 31 March 2009, the following persons held in excess of 3% of the ordinary share capital of the Company:

Shareholder	Number of shares	Percentage held
Dom Maklerski IDM Spółka Akcyjna "IDMSA"	8,000,000	17.06%
Gartmore Investment Limited	7,499,505	15.99%
Anthony Fabrizi	5,458,001	11.64%
John East	4,495,000	9.58%
David Worlidge	2,562,857	5.46%
Patrick Claridge	2,348,028	5.01%

### Corporate governance

The Group is not bound by the provisions of the Combined Code on Corporate Governance issued in June 2006, but has voluntarily adopted those provisions which it considers most relevant.

The Board of MSPLC comprises two executive directors and two non-executive directors (both of whom have shareholdings and options over the shares of the Company). One of the non-executive directors acts as chairman.

The Group has arranged appropriate insurance cover in respect of legal action against its directors.

All directors are subject to re-election at the first Annual General Meeting after their appointment, and thereafter, one third of the directors are required to retire from office by rotation and seek re-election.

The Group has established various committees, including an Audit Committee and a Remuneration Committee. Both the Audit Committee and the Remuneration Committee consist of the two non-executive directors, and there are written terms of reference for both committees establishing their responsibilities.

## Report of the Directors

### Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements. They have chosen to prepare financial statements for the Group in accordance with International Financial Reporting Standards (IFRS) and for the Company in accordance with UK GAAP.

In order to comply with IFRS, in preparing those financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- present information including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when complying with specific requirements in IFRS to enable users to understand the impact of particular transactions and events on the Group's financial position and financial performance; and
- prepare the financial statements on the going concern basis unless it is inappropriate to assume that the Group and the companies within the Group will continue in business.

UK GAAP requires the directors to prepare financial statements for each financial year which give a true and fair view of the Company's state of affairs at the end of the year and of its profit or loss for the year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are responsible and prudent;
- state whether applicable accounting standards have been followed, 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 assume that the Group and the companies within 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 Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud or other irregularities.

### Statement as to disclosure of information to auditors

Each of the persons who are directors at the time when this report is approved has confirmed that:

- (a) so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- (b) each director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of that information.

### Auditors

In accordance with Section 489 of the Companies Act 2006 a resolution proposing the reappointment of Horwath Clark Whitehill LLP as auditors of the Company will be put to the shareholders at the Annual General Meeting.

By order of the Board

**R-M Sexton**

Company Secretary

29 July 2009

## Independent Auditors' Report to the members of Merchant Securities plc

We have audited the Group and parent Company financial statements (the "financial statements") of Merchant Securities plc for the year ended 31 March 2009 which comprise the Group Income Statement, the Group Statement of Recognised Income and Expense, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, and the related notes. These Group and parent Company financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 Auditors' 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 auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union and the parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group and parent Company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group and parent Company financial statements give a true and fair view and whether the Group and parent Company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Group and parent Company financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group and parent Company financial statements. The other information comprises only the Directors' Report and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group and parent Company financial statements. Our responsibilities do not extend to any other information.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group and parent Company financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Group and parent Company financial statements, and of whether the accounting policies are appropriate to the Group's and parent Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group and parent Company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group and parent Company financial statements.

## Independent Auditors' Report to the members of Merchant Securities plc

### Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 March 2009 and of the Group's loss for the year then ended;
- the parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent Company's affairs as at 31 March 2009;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985;
- the parent Company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Group and parent Company financial statements.

### Horwath Clark Whitehill LLP

Chartered Accountants  
Registered Auditors

St Bride's House  
10 Salisbury Square  
London EC4Y 8EH

29 July 2009

### Notes:

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the Group and parent Company financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

## Consolidated Income Statement

for the year ended 31 March 2009

	Notes	Year ended 31 March 2009		Year ended 31 March 2008	
		£	£	£	£
Revenue	4	5,425,021		5,337,254	
Cost of sales	4	(829,309)		(1,481,062)	
<b>Gross profit</b>	4	<b>4,595,712</b>		<b>3,856,192</b>	
Other income	4	40,292		43,929	
Administrative expenses:					
General administrative expenses		5,266,455		4,345,996	
Impairment of goodwill	5, 12	2,624,387		–	
Impairment of intangible assets	5, 13	646,700		–	
Amortisation of intangible assets	5, 13	120,000		60,000	
Revaluation of trading investments	5, 15	381,636		72,704	
Loss on disposal of trading investments		14,840		–	
Impairment of available-for-sale investments	5	–		93,567	
Non-recurring items	5	286,790		399,047	
Total administrative expenses		<b>(9,340,808)</b>		<b>(4,971,314)</b>	
<b>Operating loss</b>	8	<b>(4,704,804)</b>		<b>(1,071,193)</b>	
Investment revenues	6	147,119		416,423	
Finance costs	6	(19,140)		(120,380)	
Loss on disposal of available-for-sale investments	7	–		(3,333)	
<b>Loss before taxation</b>		<b>(4,576,825)</b>		<b>(778,483)</b>	
Taxation	10	108,433		42,836	
<b>Loss for the year attributable to equity holders of the Company</b>		<b>(4,468,392)</b>		<b>(735,647)</b>	
<b>Earnings per share</b>					
Basic and diluted	11	(10.63p)		(2.97p)	

The loss for the year attributable to equity holders of the Company is as follows:

**Loss before tax, goodwill impairment, revaluation of investments and non-recurring items**

		(502,472)		(153,165)	
Impairment of goodwill	5	2,624,387		–	
Impairment of intangible assets		646,700		–	
Amortisation of intangible assets		120,000		60,000	
Revaluation of investments held for sale		381,636		72,704	
Loss on disposal of investments held for sale		14,840		–	
Impairment of available-for-sale investments		–		93,567	
Non-recurring items		286,790		399,047	
	5	<b>(4,074,353)</b>		<b>(625,318)</b>	
Loss before taxation		<b>(4,576,825)</b>		<b>(778,483)</b>	
Taxation		108,433		42,836	
<b>Loss for the year attributable to equity holders of the Company</b>		<b>(4,468,392)</b>		<b>(735,647)</b>	

No dividends were paid during the year (2008: £Nil).

The notes on pages 15 to 37 form an integral part of these consolidated financial statements.

## Consolidated Balance Sheet

as at 31 March 2009

	Notes	2009 £	2009 £	2008 £	2008 £
<b>Non-current assets</b>					
Goodwill	12		2,554,000		5,127,860
Intangible assets	13		562,300		1,329,000
Property, plant and equipment	14		274,543		385,762
Available-for-sale investments	15		–		49,569
Trade and other receivables	18		150,000		150,000
			<b>3,540,843</b>		<b>7,042,191</b>
<b>Current assets</b>					
Trade and other receivables	18	1,026,848		3,085,655	
Trading investments	15	–		346,636	
Cash and cash equivalents	19	2,152,932		1,793,344	
		<b>3,179,780</b>		<b>5,225,635</b>	
<b>Current liabilities</b>					
Trade and other payables	22	(726,129)		(3,367,473)	
Current tax liabilities		–		(45,678)	
		<b>(726,129)</b>		<b>(3,413,151)</b>	
<b>Net current assets</b>			<b>2,453,651</b>		<b>1,812,484</b>
<b>Non-current liabilities</b>					
Deferred tax liabilities	23		(16,000)		(34,579)
<b>Total assets less liabilities</b>			<b>5,978,494</b>		<b>8,820,096</b>
<b>Equity</b>					
Share capital	24		3,272,227		3,114,727
Share premium account			11,705,061		10,340,169
Other reserves			(3,845,350)		(3,845,350)
Revaluation reserve			–		35,690
Share-based payment reserve	26		292,485		152,397
Retained earnings			(5,445,929)		(977,537)
<b>Equity attributable to equity holders of the Company</b>			<b>5,978,494</b>		<b>8,820,096</b>

These financial statements were approved by the board of directors and authorised for issue on 29 July 2009.

Signed on behalf of the Board of Directors

**P T Claridge**  
Director

**J S H Foster-Powell**  
Director

The notes on pages 15 to 37 form an integral part of these consolidated financial statements.

## Consolidated Cash Flow Statement

for the year ended 31 March 2009

	Notes	2009 £	2008 £
<b>Cash flows from operating activities</b>			
Cash used in operations	27	(1,087,287)	(826,384)
Interest received	6	147,119	416,423
Interest paid	6	(19,140)	(120,380)
Tax received/ (paid)		(91,613)	(101,238)
Net cash used in operating activities		(1,050,921)	(631,579)
<b>Cash flows from investing activities</b>			
Acquisition of subsidiary business		(50,527)	(1,064,080)
Purchase of property, plant and equipment	14	(11,516)	(139,180)
Proceeds from disposal of held-for-sale investments		25,160	10,000
Purchase of held-for-sale investments		(75,000)	–
Net cash used in investing activities		(111,883)	(1,193,260)
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares (net of issue costs)		1,522,392	1,504,545
Net cash generated from financing activities		1,522,392	1,504,545
<b>Net increase/(decrease) in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of year		1,793,344	2,113,638
Cash and cash equivalents at end of year		2,152,932	1,793,344

The notes on pages 15 to 37 form an integral part of these consolidated financial statements.

## Consolidated Statement of Changes in Equity

for the year ended 31 March 2009

	Share capital	Share premium	Other reserves	Revaluation reserve	Share based payment reserve	Retained earnings
	£	£	£	£	£	£
Balance at 1 April 2007	1,942,000	7,408,351	(3,845,350)	(41,235)	64,066	(241,890)
Proceeds from new share issue (net of issue costs)	1,172,727	2,931,818	–	–	–	–
Movement in revaluation of available for sale investments	–	–	–	76,925	–	–
Net loss for the year	–	–	–	–	–	(735,647)
Total recognised income and expenses	1,172,727	2,931,818	–	76,925	–	(735,647)
Recognition of share-based payments	–	–	–	–	88,331	–
<b>Balance at 31 March 2008</b>	<b>3,114,727</b>	<b>10,340,169</b>	<b>(3,845,350)</b>	<b>35,690</b>	<b>152,397</b>	<b>(977,537)</b>
Proceeds from new share issue (net of issue costs)	157,500	1,364,892	–	–	–	–
Movement in revaluation of available for sale investments	–	–	–	(35,690)	–	–
Net loss for the year	–	–	–	–	–	(4,468,392)
Total recognised income and expenses	157,500	1,364,892	–	(35,690)	–	(4,468,392)
Recognition of share-based payments	–	–	–	–	140,088	–
<b>Balance at 31 March 2009</b>	<b>3,272,227</b>	<b>11,705,061</b>	<b>(3,845,350)</b>	<b>–</b>	<b>292,485</b>	<b>(5,445,929)</b>

The notes on pages 15 to 37 form an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

for the year ended 31 March 2009

## 1 General information

Merchant Securities plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the Registered Office is shown on page 2.

The principal activities of the Group are the provision of investment services within the United Kingdom. These services include investment advice, execution, settlement and custody for domestic and foreign equities, equity derivatives, bonds, equity-linked structured products, collective investment schemes, the provision of dealing services to institutional and private clients, the provision of corporate finance advisory services and the raising of venture capital.

The financial statements are presented in pounds sterling, the functional currency of all companies in the Group.

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the close of the year are reported at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of transaction is included as an exchange gain or loss in the income statement.

## 2 Summary of significant accounting policies

The financial statements have been prepared in accordance with IFRS, as adopted by the European Union. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities at fair value through profit or loss.

Certain changes to IFRS will be applicable for the Group's accounts in future periods. To the extent that the Group has not adopted these early in the current financial statements, they will not affect the Group's reported profit or equity but they will affect disclosures.

As at the date of approval of these financial statements, the following standards and interpretations, relevant to the Group's operations, were in issue but not yet effective:

IFRS 3 (revised) – Business combinations

IAS 27 (revised) – Consolidated and Separate Financial Statements

IAS 39 (amendment) – Financial instruments Recognition and measurement

Reclassification of Financial Assets (Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures)

IFRIC 17 – Distributions of Non-cash Assets to Owners

IFRS 1 (revised) – First-time Adoption of International Financial Reporting Standards

IFRIC 9 and IAS 39 (amendment) – Embedded Derivatives

Numerous other minor amendments to standards have been made as a result of the IASB's annual improvement project.

## Notes to the Consolidated Financial Statements

for the year ended 31 March 2009

### 2 Summary of significant accounting policies (continued)

#### Basis of consolidation

The Group's financial statements consolidate the financial statements of the Company and all its subsidiaries as at 31 March 2009. Subsidiaries are entities that are directly or indirectly controlled by the Group. Control exists where the Group has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. All intra-group transactions, balances, income and expenses have been eliminated on consolidation.

#### Goodwill

Goodwill has been calculated as the excess of the fair value paid on acquisition, plus associated costs, over the fair value of the net assets of the company acquired. Goodwill is reviewed at least annually, and any impairment is recognised in the Consolidated Income Statement. Such impairment is permanent, as it is not permitted to be reversed in future periods.

#### Intangible assets

Intangible assets comprise trademarks, customer relationships and non-compete agreements. These assets are stated at their fair values at acquisition following an independent assessment. They are held at cost less amortisation and provisions for impairment, if any, and are amortised over their useful lives of 3 years to 5 years.

#### Property, plant and equipment

Property, plant and equipment is stated at historic cost less accumulated depreciation. Depreciation is charged so as to write off the cost or valuation of the assets over their estimated useful lives on a straight line basis over the following periods.

Leasehold improvements	Over the expected length of the lease
Computer hardware	3 to 4 years
Computer software	3 to 6 years
Furniture and fittings	10 years
Office equipment	4 years
Telephone equipment	5 years

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within '(Loss)/profit on disposal of fixed assets' in the income statement.

## Notes to the Consolidated Financial Statements

for the year ended 31 March 2009

### 2 Summary of significant accounting policies (continued)

#### Investments

Investments in securities are recognised and derecognised on trade date. Such investments are initially measured at cost, inclusive of transaction costs.

Investments are reported at fair value based on market prices if the investments are quoted on a recognised exchange, or based on other appropriate valuation techniques if unquoted. When assessing the value of warrants and options over shares, management considers the effect of exercise periods, "lock-in" arrangements, and other relevant clauses. Investments are classified as "held for sale" if management intends to dispose of them within a year. Otherwise, they are classified as "available for sale" and designated as non-current assets.

#### Available for sale investments

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets. They comprise listed and unlisted investments. Listed investments are valued using market values and unlisted investments by Directors' valuation.

After initial recognition, investments which are classified as available for sale are measured at fair value. Gains or losses on available for sale investments are recognised directly as a separate component of equity until the investment is sold, or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement as a profit or loss for the period.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

Available for sale financial assets are reviewed at the balance sheet date for evidence of impairment. Any loss arising from impairment of these investments is recognised directly in equity for the period.

#### Trading Investments

After initial recognition, investments which are classified as held for sale are categorised as trading investments, are measured at fair value and are recorded as current assets. Trading investments are reviewed at the balance sheet date for evidence of impairment. Any loss arising from impairment of investments is recognised directly in the income statement for the period.

#### Trade receivables

Trade receivables are financial assets with fixed or determinable payments; they are recognised at fair value less any provision for impairment. Such provision will be made when there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms.

#### Credit risk

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the broad and unrelated client base. Accordingly, the directors believe that there is no credit provision required in excess of the allowance for doubtful debts, refer note 18.

The Group has a policy of treating all receivables which are more than 90 days overdue as impaired.

## Notes to the Consolidated Financial Statements

for the year ended 31 March 2009

### 2 Summary of significant accounting policies (continued)

#### Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

#### Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

#### Trade payables

Trade payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method.

#### Provisions

Provisions are recognised when the Group has a present obligation arising from a past event, and it is probable that the Group will need to settle the obligation. Provisions are recorded at the directors' best estimate of the amount needed to settle the obligation at the date of the balance sheet.

#### Deferred income tax

Full provision is made for deferred taxation in respect of timing differences which have arisen but not reversed at the balance sheet date, at the tax rates that are expected to apply in the years in which timing differences are expected to reverse, based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Timing differences are differences between the Group's taxable profits or losses, and its results as stated in the financial statements. Deferred taxation is measured on a non-discounted basis.

Deferred tax assets are only recognised where they arise from timing differences, and where their recoverability in the short term is regarded as more likely than not.

Deferred tax is credited or charged directly to equity in cases where the assets or liabilities to which the deferred tax calculations relate have also been credited or charged directly to equity.

#### Equity instruments

Equity instruments issued by the Company are recorded at the value of proceeds received, net of direct issue costs.

#### Income recognition

Revenue has been measured at the fair value of the consideration received or receivable and represents gross commissions and fees in the course of ordinary business, net of discounts, VAT and any other sales taxes. Commission from clients on investment services and dealing and execution services is recognised at the time those transactions are executed. Commission and fees from third parties are recognised when the relevant deals have been substantially completed. Fees payable by clients are levied twice yearly. Uninvoiced fees accruing to 31 March 2009 have been accounted for.

Interest is recognised as it accrues. Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

## Notes to the Consolidated Financial Statements

for the year ended 31 March 2009

### 2 Summary of significant accounting policies (continued)

#### Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

#### Taxation

Taxation disclosed in the Consolidated Income Statement represents the sum of corporation tax currently payable, any adjustments to previously disclosed corporation tax, and deferred tax income and charges.

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

#### Share based payments

The Group operates an equity-settled, share-based compensation plan on behalf of its employees. The Group has applied the requirements of IFRS 2 under which a charge is recognised in the Group's Consolidated Income Statement based on the fair value of the grant of options, as measured at the grant date. The charge is applied on a straight line basis over the expected vesting period, based on the Group's estimate of shares that will eventually vest; the expense is adjusted for the effects of expected market volatility and non-market-based vesting conditions. The corresponding credit is allocated to the share-based payment reserve.

Fair value is measured by using the Black-Scholes option pricing model. The expected life used in the model has been adjusted based on management's best estimates of the effects of staff departures, exercise restrictions and behavioural considerations.

#### Pension costs

The Group's contributions to money purchase schemes on behalf of certain employees are charged to the Consolidated Income Statement as they become payable.

#### Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

#### Change of accounting estimate

The directors have reviewed the useful life of intangible assets carried in the balance sheet. The expected useful life of intangible assets has been reduced from 15-17 years to 3-5 years based on current market conditions. At year end, an impairment charge was included against the carrying value of intangible assets as shown in note 13.

## Notes to the Consolidated Financial Statements

for the year ended 31 March 2009

### 3 Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, which are described in note 2, management has made the following judgements that have had a significant effect on the amounts recognised in the financial statements.

#### Goodwill impairment

The Group reviews goodwill annually to assess whether, in management's estimation, any impairment has been suffered. This review requires an estimation of the value of the cash-generating units to which goodwill has been allocated. Future cash flows from these units are estimated and discounted at an appropriate rate to arrive at the net present value.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense in the income statement.

The Group has reviewed the value of goodwill held at 31 March 2009 and concluded that it is appropriate to write down the carrying value of its goodwill as shown in note 12.

#### Trademarks and other intangible assets

Trademarks and other intangible assets are measured initially at purchase cost and amortised on a straight-line basis over their estimated useful lives, which is currently between three and five years.

The Group has reviewed the value of intangible assets held at 31 March 2009 and concluded that it is appropriate to write down the carrying value of its intangible assets as shown in note 13.

#### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets with finite lives 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 it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill arising on acquisition is allocated to cash-generating units. The recoverable amount of the cash-generating unit to which goodwill has been allocated is tested for impairment annually, or on such other occasions that events or changes in circumstances indicate that it might be impaired.

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 (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is land or buildings at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (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 (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.

## Notes to the Consolidated Financial Statements

for the year ended 31 March 2009

## 4 Revenue and gross profit by segment

The Group's results for the year ended 31 March 2009, all of which were generated within the United Kingdom, can be analysed by product as follows:

	Private client and institutional broking £	Corporate finance and private equity £	Unallocated and reconciling items £	TOTAL 2009 £
<b>Revenue</b>	3,595,208	1,829,813	–	<b>5,425,021</b>
Cost of sales	(708,255)	(121,054)	–	<b>(829,309)</b>
<b>Gross profit</b>	2,886,953	1,708,759	–	<b>4,595,712</b>
Other income	29,776	8,411	2,105	<b>40,292</b>
Administrative expenses	(2,847,587)	(2,370,893)	(45,974)	<b>(5,264,454)</b>
Impairment of goodwill	(1,180,015)	(1,444,372)	–	<b>(2,624,387)</b>
Impairment of intangible assets	–	(646,700)	–	<b>(646,700)</b>
Amortisation of intangible assets	–	(120,000)	–	<b>(120,000)</b>
Revaluation of trading investments	–	(67,747)	(313,889)	<b>(381,636)</b>
Loss on disposal of trading investments	–	(14,840)	–	<b>(14,840)</b>
Non-recurring costs	(121,931)	(30,100)	(134,759)	<b>(286,790)</b>
<b>Operating loss</b>	(1,232,804)	(2,977,482)	(492,517)	<b>(4,702,803)</b>
Investment revenues	81,885	33,319	31,915	<b>147,119</b>
Finance costs	(18,952)	–	(188)	<b>(19,140)</b>
Loss on disposal of fixed assets	–	(2,001)	–	<b>(2,001)</b>
<b>Loss before taxation</b>	(1,169,871)	(2,946,164)	(460,790)	<b>(4,576,825)</b>
Taxation	–	90,903	17,530	<b>108,433</b>
<b>Loss after taxation</b>	(1,169,871)	(2,855,261)	(443,260)	<b>(4,468,392)</b>
<b>Other information</b>				
Capital additions (including those resulting from acquisition)	8,674	2,842	–	<b>11,516</b>
Share based payments	30,571	46,146	63,371	<b>140,088</b>
Depreciation	41,548	79,186	–	<b>120,734</b>
<b>Balance sheet</b>				
Assets	2,125,175	2,055,642	2,539,806	<b>6,720,623</b>
Liabilities	(139,684)	(280,191)	(322,254)	<b>(742,129)</b>

## Notes to the Consolidated Financial Statements

for the year ended 31 March 2009

## 4 Revenue and gross profit by segment (continued)

The Group's results for the year ended 31 March 2008, all of which were generated within the United Kingdom, can be analysed by product as follows:

	Private client and institutional broking £	Corporate finance and private equity £	Unallocated and reconciling items £	TOTAL 2008 £
<b>Revenue</b>	3,027,287	2,309,967	–	<b>5,337,254</b>
Cost of sales	(890,393)	(590,669)	–	<b>(1,481,062)</b>
<b>Gross profit</b>	2,136,894	1,719,298	–	<b>3,856,192</b>
Other income	20,000	23,929	–	<b>43,929</b>
	2,156,894	1,743,227	–	<b>3,900,121</b>
Administrative expenses	(2,116,181)	(1,367,463)	(862,352)	<b>(4,345,996)</b>
Amortisation of intangible assets	–	(60,000)	–	<b>(60,000)</b>
Revaluation of trading investments	–	(72,704)	–	<b>(72,704)</b>
Impairment of trading investments	–	–	(93,567)	<b>(93,567)</b>
Non-recurring costs	–	–	(399,047)	<b>(399,047)</b>
<b>Operating (loss)/profit</b>	40,713	243,060	(1,354,966)	<b>(1,071,193)</b>
Investment revenues	–	–	416,423	<b>416,423</b>
Finance costs	–	–	(120,380)	<b>(120,380)</b>
Loss on disposal of available-for-sale investments	–	–	(3,333)	<b>(3,333)</b>
<b>(Loss)/profit before taxation</b>	40,713	243,060	(1,062,256)	<b>(778,483)</b>
Taxation	–	–	42,836	<b>42,836</b>
<b>(Loss)/profit after taxation</b>	40,713	243,060	(1,019,420)	<b>(735,647)</b>
<b>Other information</b>				
Capital additions (including those resulting from acquisition)	134,256	261,848	4,924	<b>401,028</b>
Share based payments	–	–	117,397	<b>117,397</b>
Depreciation	11,842	37,201	40,580	<b>89,623</b>
<b>Balance sheet</b>				
Assets	2,949,891	3,687,213	5,630,722	<b>12,267,826</b>
Liabilities	2,187,302	556,378	704,050	<b>3,447,730</b>

## Notes to the Consolidated Financial Statements

for the year ended 31 March 2009

### 5 Particular administrative expenses

The Group has disclosed separately the following items, due to their material effect on the accounts:

	Notes	2009 £	2008 £
Impairment of goodwill	12	2,624,387	–
Impairment of intangibles	13	646,700	–
Amortisation of intangibles	13	120,000	60,000
Impairment of trading investments	15	381,636	72,704
Disposal of trading investments		14,840	–
One-off professional costs		84,568	253,000
Severance payments	9	155,472	95,233
Recruitment costs		–	50,814
Impairment of available-for-sale investment		–	93,567
Bad debts written-off		46,750	–
		<b>4,074,353</b>	<b>625,318</b>

### 6 Investment revenue and finance costs

Investment revenues comprise:

	2009 £	2008 £
Interest receivable in respect of client bank accounts	27,635	332,858
Interest receivable in respect of Group company bank accounts	64,840	52,777
Other interest receivable	54,644	30,788
	<b>147,119</b>	<b>416,423</b>

Finance costs comprise:

	2009 £	2008 £
Interest payable to clients	18,952	120,067
Interest on bank overdrafts	–	3
Other interest	188	310
	<b>19,140</b>	<b>120,380</b>

### 7 Loss on disposal of available-for-sale investments

The loss on disposal of available-for-sale investments was in respect of the following:

	2009 £	2008 £
Loss on disposal of listed investments	–	(3,333)

The loss in 2008 arose from the disposal of ordinary shares in a listed company.

## Notes to the Consolidated Financial Statements

for the year ended 31 March 2009

### 8 Loss of the year

The loss for the year is stated after charging:

	2009 £	2008 £
Auditors' remuneration – auditing of accounts pursuant to legislation	25,000	81,500
Auditors' remuneration – other services relating to taxation	–	9,185
Auditors' remuneration – other services	–	21,502
Operating leases – land and buildings	206,480	165,208
Operating leases – machinery	27,748	19,718
Depreciation of property, plant and equipment	120,734	89,164
Impairment of goodwill	2,624,387	–
Amortisation of intangible assets	120,000	60,000
Impairment of intangible assets	646,700	–
Share-based payments	140,088	117,397

### 9 Staff costs

#### Directors' remuneration

	2009 £	2008 £
Aggregate emoluments (excluding pension contributions)	374,374	599,844
Highest paid director (included within the above)	128,057	191,600

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 1 (2008: 1). During the year £25,873 (2008 £12,894) was paid into such schemes by the Group in respect of the director.

The following non-salary expenses were incurred in respect of directors:

<b>Compensation</b>	2009 £	2008 £
Short-term benefits (health care, dental care and subsidised gym membership)	9,291	6,877
Long-term benefits (life assurance, critical illness cover and income protection)	4,876	–
Share based payments	6,642	13,932
	<b>20,809</b>	<b>20,809</b>

All key management personnel remuneration is included above. Note that short-term benefits are included in the amounts shown above for directors' remuneration.

#### Staff costs (including directors' remuneration)

	2009 £	2008 £
Wages and salaries (including commission and bonuses)	3,062,608	2,531,385
Social security costs	358,934	359,742
Termination payments – directors	52,500	70,100
Termination payments – other	102,972	20,000
	<b>3,577,014</b>	<b>2,981,227</b>

## Notes to the Consolidated Financial Statements

for the year ended 31 March 2009

## 9 Staff costs (continued)

## Staff numbers

	2009 Number	2008 Number
Executive directors	5	5
Others	38	33
The average number of employees (including directors) during the year was:	43	38

## Pension contributions

During the year an expense of £108,796 (2008 £57,432) was recorded in the Consolidated Income Statement in respect of retirement benefits for staff (including directors) accruing under money purchase pension schemes.

## 10 Taxation

## Analysis of the tax charge

The tax (credit)/charge is based on the results for the year on ordinary activities and comprises:

	2009 £	2008 £
UK corporation tax	(103,733)	(65,488)
Deferred tax (see below)	(4,700)	22,652
	(108,433)	(42,836)

The charge for the year can be reconciled to the Consolidated Income Statement as follows:

## Corporation tax credit

	2009 £	2008 £
<b>Based on taxable loss for the year:</b>	<b>(4,576,825)</b>	<b>(778,483)</b>
UK corporation tax – current year at 28% (2008: 30%)	(1,281,511)	(233,545)
Effects of:		
Losses not utilised in year	178,793	39,851
Adjustments in respect of prior periods	(25,593)	(2,670)
Non-deductible expenses	1,009,190	118,394
Other adjustments	15,388	12,482
	(103,733)	(65,488)

## Deferred tax (credit)/charge

	2009 £	2008 £
Arising from difference in market value of share options between balance sheet date and exercise date	–	6,588
Deferred tax movements in respect of excess depreciation over capital allowances	(4,700)	16,064
	(4,700)	22,652

In addition to the above deferred tax balance credited to the Consolidated Income Statement, a deferred tax charge of £13,879 (2008: Nil) emanating from the revaluation of available-for-sale shares, options and warrants has been credited directly to equity (see note 23). There are trading losses available to carry forward of approximately £1,073,000 (2008: £410,000).

## Notes to the Consolidated Financial Statements

for the year ended 31 March 2009

### 11 Earnings per share

Basic earnings per share are based on the post-tax loss for the year of £4,468,392 (2008: loss of £735,647) and on 42,021,243 ordinary 1p shares (2008: 24,757,165) being the weighted average number of shares in issue during the year.

The effect of all potential ordinary shares under option is anti-dilutive. Details of the share options issued which could be dilutive in the future are set out in note 27.

Calculations are as follows:

<b>Earnings for the purpose of basic and diluted earnings per share</b>	<b>2009</b> £	<b>2009</b> £	<b>2008</b> £	<b>2008</b> £
Net loss attributable to equity holders of MSPLC		<b>(4,468,392)</b>		(735,647)
Impairment of goodwill	<b>2,624,387</b>			
Amortisation/Impairment of intangible assets	<b>766,700</b>		60,000	
Revaluation of investments held-for-sale	<b>381,636</b>		72,704	
Loss and disposal of investments held-for-sale	<b>14,840</b>		–	
Impairment of available-for-sale investments	<b>–</b>		93,567	
Non-recurring costs	<b>286,790</b>		399,047	
Expenses added back		<b>4,074,353</b>		625,318
Notional net loss after adding back above expenses		<b>(394,039)</b>		(110,329)
<b>Number of shares</b>				
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share		<b>42,021,243</b>		24,757,165
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share		<b>47,220,057</b>		29,230,411
<b>Earnings per share (EPS)</b>				
Basic and diluted EPS based on loss attributable to equity holders		<b>(10.63p)</b>		(2.97p)
Basic EPS after adding back above expenses		<b>(0.94p)</b>		(0.45p)
Diluted EPS after adding back above expenses		<b>(0.94p)</b>		(0.45p)

## Notes to the Consolidated Financial Statements

for the year ended 31 March 2009

12 Goodwill	2009 £	2008 £
<b>Cost</b>		
At 1 April	5,549,901	3,130,056
Recognised on acquisition of MSGL	–	–
Recognised on reverse acquisition of MSPLC	–	–
Recognised on acquisition of JEP	50,527	2,419,845
<b>At 31 March</b>	<b>5,600,428</b>	<b>5,549,901</b>
<b>Impairment</b>		
At 1 April	422,041	422,041
Charge for the year	2,624,387	–
<b>At 31 March</b>	<b>3,046,428</b>	<b>422,041</b>
<b>Net Book Value</b>		
<b>At 31 March</b>	<b>2,554,000</b>	<b>5,127,860</b>

Goodwill acquired in a business combination is allocated to the cash generating units expected to benefit from the business combination. The Group tests goodwill annually for impairment or more frequently if deemed necessary.

The carrying amount of the segments has been reduced to their recoverable amount through recognition of an impairment loss against goodwill (refer note 4). The impairment charge has arisen due to the change in market conditions during the year. This charge has been included in the income statement.

### Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to operating segment.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. A discount rate of 9% per annum has been assumed throughout the period.

## Notes to the Consolidated Financial Statements

for the year ended 31 March 2009

13 Intangible assets	2009 £	2008 £
<b>Cost</b>		
At 1 April	1,389,000	–
Recognised on acquisition of JEP	–	1,389,000
<b>At 31 March</b>	<b>1,389,000</b>	<b>1,389,000</b>
<b>Amortisation</b>		
At 1 April	60,000	–
Charge for the year	120,000	60,000
<b>At 31 March</b>	<b>180,000</b>	<b>60,000</b>
<b>Impairment</b>		
At 1 April	–	–
Impairment Charge	646,700	–
<b>At 31 March</b>	<b>646,700</b>	<b>–</b>
<b>Net Book Value</b>		
<b>At 31 March</b>	<b>562,300</b>	<b>1,329,000</b>

Intangible assets represent externally acquired trademarks, customer relationships and non-compete agreements arising from the acquisition of JEP in October 2007.

### Impairment tests for intangible assets

The Group has reviewed the carrying value of intangible assets in relation to trademarks and customer relationships acquired in the light of the change in market conditions and transaction volumes and has determined that it would be prudent to write down the carrying value of its intangible assets by £646,700. This charge has been included in the income statement.

## Notes to the Consolidated Financial Statements

for the year ended 31 March 2009

### 14 Property, plant and equipment

	Leasehold property improvements £	Computer hardware & software £	Furniture & fittings £	Office equipment £	Telephone equipment £	TOTAL £
<b>Cost</b>						
At 1 April 2007	6,665	191,675	33,676	7,615	39,839	279,470
Acquisition of subsidiary	89,977	48,706	54,467	104,411	13,631	311,192
Additions	4,515	132,463	1,470	323	409	139,180
Disposals	–	–	–	(2,591)	–	(2,591)
<b>At 31 March 2008</b>	<b>101,157</b>	<b>372,844</b>	<b>89,613</b>	<b>109,758</b>	<b>53,879</b>	<b>727,251</b>
At 1 April 2008	101,157	372,844	89,613	109,758	53,879	727,251
Additions	–	11,123	138	–	255	11,516
Disposals	–	(1,949)	(2,215)	–	–	(4,164)
<b>At 31 March 2009</b>	<b>101,157</b>	<b>382,018</b>	<b>87,536</b>	<b>109,758</b>	<b>54,134</b>	<b>734,603</b>
<b>Depreciation</b>						
At 1 April 2007	318	142,583	24,560	6,620	28,900	202,981
Acquisition of subsidiary	3,156	35,106	1,513	9,399	170	49,344
Charge for the year	15,897	49,796	11,998	7,210	4,722	89,623
Disposals	–	(113)	–	(346)	–	(459)
<b>At 31 March 2008</b>	<b>19,371</b>	<b>227,372</b>	<b>38,071</b>	<b>22,883</b>	<b>33,792</b>	<b>341,489</b>
At 1 April 2008	19,371	227,372	38,071	22,883	33,792	341,489
Charge for the year	32,117	47,337	20,372	15,092	5,816	120,734
Disposals	–	(1,732)	(431)	–	–	(2,163)
<b>At 31 March 2009</b>	<b>51,488</b>	<b>272,977</b>	<b>58,012</b>	<b>37,975</b>	<b>39,608</b>	<b>460,060</b>
<b>Net book value</b>						
<b>At 31 March 2009</b>	<b>49,669</b>	<b>109,041</b>	<b>29,524</b>	<b>71,783</b>	<b>14,526</b>	<b>274,543</b>
At 31 March 2008	81,786	145,472	51,542	86,875	20,087	385,762

## Notes to the Consolidated Financial Statements

for the year ended 31 March 2009

### 15 Investments

Non-current investments	2009 £	2008 £
Investments available for sale at start of year at cost	133,667	133,667
IFRS revaluation adjustment brought forward	(84,098)	(58,907)
Investments available for sale at start of year at fair value	49,569	74,760
Disposal of investments	–	–
Investments acquired	–	–
Revaluation at year end	(49,569)	(25,191)
<b>At 31 March</b>	<b>–</b>	<b>49,569</b>

The Group holds a number of warrants and options over shares in various companies, some unlisted, and others listed on AIM. The reduction of £35,690 in the fair value of these options during the year has been posted to the revaluation reserve. The cost of these options and warrants was £Nil. Fair value has been established by calculating the difference between the market value of the shares and the exercise price. Market value has been ascertained by reference to the market price in the case of options over shares in listed companies, or otherwise by use of other appropriate valuation techniques.

Trading investments (also known as “held for sale” investments or assets) represent investments in listed equities which present the Group with the opportunity to receive dividend income and make trading gains.

Current investments	2009 £	2008 £
Investments held for sale at start of year at fair value	346,636	390,000
Disposal of investments	(40,000)	(13,333)
Investments acquired at fair value	75,000	42,673
Revaluation of investments at year end	(381,636)	(72,704)
Fair value of investments held for sale at end of year	–	346,636

The movement in fair value has been included in the Consolidated Income Statement.

The market value of the investments at 31 March 2009 was £150,732.

## Notes to the Consolidated Financial Statements

for the year ended 31 March 2009

### 16 Group companies

MSPLC is the legal parent company. In the opinion of the directors, there is no ultimate controlling party of MSPLC.

The subsidiary undertakings of Merchant Securities plc and their countries of incorporation are:

	Country of incorporation	Principal activity	Class of shares held	Percentage of shares held
Merchant Securities Group Limited*	England & Wales	Institutional and Private Client Stockbroking	Ordinary	100%
John East & Partners Limited*	England & Wales	Corporate Finance advice, raising capital and listing companies	Ordinary	100%
Merchant Securities (Nominees) Limited*	England & Wales	Dormant Company	Ordinary	100%
Merchant Securities Holdings Limited	England & Wales	Dormant Holding Company	Ordinary	100%
Vestry Nominees Limited *	England & Wales	Dormant Company	Ordinary	100%
East Worlidge Holdings Limited	England & Wales	Dormant Holding Company	Ordinary	100%

\*Shareholding held indirectly.

### 17 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are accordingly not disclosed.

The financial statements of the parent company include amounts attributable to subsidiaries. These amounts have been disclosed in aggregate in the relevant notes to the financial statements and in detail in the following table:

	Amounts owed by related parties		Amounts owed to related parties	
	2009 £	2008 £	2009 £	2008 £
MSG L	47,375	–	–	15,605
JEP	–	–	107,181	10,000
EW H	–	–	68,000	68,000
Merchant Securities Holdings Limited	–	–	359,367	471,173
	47,375	–	534,548	564,778

The only effect of related party transactions on the income statement, which have all been eliminated on consolidation, was in respect of management charges.

The parent company received a management fee from JEP of £180,000 (2008:£Nil) and from MSG L £Nil (2008:£50,000). The parent company paid a management charge to MSG L during the year of £241,000 (2008:£139,000).

## Notes to the Consolidated Financial Statements

for the year ended 31 March 2009

### 18 Trade and other receivables

Amounts falling due within one year	2009 £	2008 £
Receivable from clients	–	1,806,819
Less provision for impairment of receivables from clients	–	(20,000)
Receivable from counterparties	<b>391,870</b>	521,951
Less provision for impairment of receivables from counterparties	<b>(117,674)</b>	(121,872)
Other receivables	<b>63,445</b>	24,058
Prepayments and accrued income	<b>539,539</b>	874,699
Corporation tax receivable	<b>149,668</b>	–
	<b>1,026,848</b>	3,085,655

Within trade and other receivables the largest debtor represents 14% of the amounts outstanding at the balance sheet date. The maximum exposure to credit risk from trade and other receivables is represented by the above amounts. The Group has a policy of treating all receivables which are more than 90 days overdue as impaired.

Amounts falling due after more than one year	2009 £	2008 £
Other receivables	<b>150,000</b>	150,000

The directors consider that the above amounts are stated at their fair value.

### 19 Cash and cash equivalents

Cash and cash equivalents consist of the Group's own cash at bank only. MSGL no longer holds client funds. At the previous year end MSGL held money on behalf of clients in trust in sterling and in various foreign currencies, in accordance with the client money regulations of the FSA. As these balances, as well as the associated market risk, belonged to MSGL's clients, the balances were excluded from the Consolidated Balance Sheet.

As at the balance sheet date, the following client money balances were held:

	2009 £	2008 £
Sterling	–	4,934,857
US dollars	–	350,350
Euros	–	112,827
Swiss francs	–	6,186
Canadian Dollars	–	12,412
	–	5,416,632

## Notes to the Consolidated Financial Statements

for the year ended 31 March 2009

### 20 Financial risk management objectives and policies

The directors consider that their main risk management objective is to monitor and mitigate the key risks to the Group which are considered to be personnel and reputational risks. Secondary risks are credit risk, liquidity risk and operational risk. Several high-level procedures are already in place to enable all risks to be controlled. These include detailed profit forecasts by business segment, monthly management accounts and comparisons against forecast, monthly meetings of the full Board of Directors, and more regular senior management meetings. The Risk Committee monitors and mitigates the principal risks facing the Group. The Risk Committee meets at least quarterly and presents its findings to the Board and to the Audit Committee.

The risk of a private client defaulting is mitigated by the Group's right to dispose of clients' positions in the case of default. The credit risk associated with the cash is limited as the counterparties are banks with high credit ratings assigned by international credit-rating agencies. Market counterparties are all regulated entities in major financial markets.

The Company's principal business risk arises from the fact that an element of income is linked to transaction volumes and market activity which has a direct impact on commission and fee income. The directors have taken steps to ensure that the Group has a diversified product range which helps to shield it from lower transaction volumes whilst maintaining the operational gearing effect of the business when volumes increase.

Debts in respect of business activities are monitored by the finance department. Other risks, including operational, reputational and legal risks are under constant review by the executive directors and senior managers at their regular meetings (generally at least fortnightly), and by the full board.

The Group aims to fund its expansion plans mainly from existing cash balances without making use of bank loans or overdraft facilities.

The Group does not take positions for its own account. It trades for clients as agent only. Accordingly, the Group has no positional risk exposure, neither is it exposed to foreign exchange risk, interest rate risk nor any significant credit risk.

### 21 Capital risk management

The Group's objectives when managing capital are to ensure that it has adequate capital to satisfy its regulatory requirements as set out by the Financial Services Authority and to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Group has no debt and the capital is calculated as total equity as shown in the consolidated balance sheet.

### 22 Trade and other payables

	2009 £	2008 £
Amounts owed to clients and other counterparties	<b>218,780</b>	2,142,289
Other taxes and social security	<b>124,398</b>	210,385
Accruals and deferred income	<b>241,742</b>	880,085
Other payables	<b>141,209</b>	134,714
	<b>726,129</b>	3,367,473

The directors consider that the above amounts are stated at their fair value.

All trade and other payables are unsecured and repayable on demand/at short notice.

The Group has a policy of paying creditors as they fall due in accordance with the credit terms of its suppliers.

## Notes to the Consolidated Financial Statements

for the year ended 31 March 2009

### 23 Deferred tax assets and liabilities

Deferred tax assets	Share based payments £	Total £
At 1 April 2007	35,654	<b>35,654</b>
Deferred tax assets arising from share options issued during the year	(35,654)	<b>(35,654)</b>
At 31 March 2008 and 2009	–	–

No deferred tax assets have been recognised.

#### Deferred tax liabilities

	Revaluation £	Excess of book values over capital allowances £	Other timing differences £	Total £
1 April 2007	22,428	–	–	22,428
Revaluation of financial assets	(8,549)	–	–	(8,549)
Excess of book values over written down values	–	16,700	–	16,700
Movement in other differences	–	–	4,000	4,000
<b>31 March 2008</b>	<b>13,879</b>	<b>16,700</b>	<b>4,000</b>	<b>34,579</b>
Revaluation of financial assets	(13,879)	–	–	(13,879)
Excess of book value over written down value	–	(700)	–	(700)
Movement on other differences	–	–	(4,000)	(4,000)
<b>31 March 2009</b>	<b>–</b>	<b>16,000</b>	<b>–</b>	<b>16,000</b>

### 24 Called up share capital

	2009 £	2008 £
<b>Authorised</b>		
50,000,000 1p New Ordinary shares (2008 – 50,000,000 10p ordinary shares)	<b>500,000</b>	5,000,000
50,000,000 9p Deferred shares (2008 – Nil)	<b>4,500,000</b>	–
	<b>5,000,000</b>	5,000,000
<b>Called up, allotted and fully paid</b>		
46,897,270 1p New Ordinary shares (2008 – 31,147,270 10p Ordinary shares)	<b>468,973</b>	3,114,727
31,147,270 9p Deferred shares	<b>2,803,254</b>	–
	<b>3,272,227</b>	3,114,727

The authorised share capital of MSPLC at 1 April 2008 was 50,000,000 shares of 10 pence each (£5,000,000), of which 31,147,270 (£3,114,727) were in issue. On 22 July 2008, the Company undertook a capital reorganisation which split each existing 10p ordinary share into a 1p New Ordinary share plus a 9p Deferred share. In addition the Company placed 15,750,000 New Ordinary shares of 1p each at 10 pence per share. The Deferred shares have no voting rights nor any entitlement to any dividends nor to attend general meetings. The Board intends to apply to the High Court at the appropriate time for the Deferred shares to be cancelled.

## Notes to the Consolidated Financial Statements

for the year ended 31 March 2009

### 25 Consolidated statement of recognised income and expenses

	Notes	2009 £	2008 £
Loss on revaluation of available-for-sale shares, options and warrants taken to equity	15	(49,569)	(25,191)
Deferred tax on losses on available-for-sale shares, options and warrants	23	13,879	8,549
<b>Net expenses recognised directly in equity</b>		<b>(35,690)</b>	<b>(16,642)</b>
<b>Impairment of available for sale investments</b>		<b>–</b>	<b>93,567</b>
<b>Loss for the year</b>		<b>(4,468,392)</b>	<b>(735,647)</b>
<b>Total recognised income and expense for the year</b>		<b>(4,504,082)</b>	<b>(658,722)</b>

### 26 Share based payments

The Group runs two equity-settled share based option schemes, an Enterprise Management Incentives (“EMI”) scheme and an Executive Share Option Scheme (“EXSOS”). Options expire if the director or employee leaves the Group before exercise or if the options remain unexercised after the exercise period has lapsed.

The Group recognised total expenses of £140,088 (£117,397) related to equity-settled share based payment transactions. The corresponding equity credit has been allocated to the share-based payment reserve. No deferred tax charge or credit has been recognised (2008: deferred tax charge £6,588).

At 31 March 2009 the following options have been granted and remain outstanding in respect of ordinary shares of 1p in the Company under the Company’s EMI scheme.

Dates of grant	20 November 2008	24 August 2007 – 9 October 2007	30 June 2006 – 30 October 2006
Exercisable two years following date of grant	23 April 2010 – 19 November 2018	24 August 2009 – 8 October 2017	30 June 2008 – 29 October 2016
Number of shares	1,516,083	1,199,004	1,469,603
Exercise price per share	15.00p-25.00p	35.00p-36.50p	29.94p
Fair value per share	0.83p-1.15p	8.41p-8.83p	0.5p-23.56p

The fair value of the options has been calculated using the Black-Scholes model with the following inputs. Expected volatility is based on the historical share price volatility.

Share price at date of grant	7.00p	36.50p-38.50p	14.97p-50.00p
Expected life	2.5 years	2.5 years	2.18-2.5 years
Expected volatility	67.4%	29.9%	29.9%
Risk free rate	3.62%	4.08%-4.68%	4.68%
Expected dividend yield	Nil	Nil	Nil

## Notes to the Consolidated Financial Statements

for the year ended 31 March 2009

## 26 Share based payments (continued)

The following table reconciles outstanding share options at the beginning and end of the financial year.

EMI Share option scheme	2009		2008	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
1 April	4,129,109	31.36p	2,246,160	29.94p
Granted	1,421,083	18.11p	2,142,719	32.79p
Exercised	–	–	–	–
Forfeited	(1,365,502)	27.51p	(259,770)	30.98p
31 March	4,184,690	28.11p	4,129,109	31.36p
Exercisable	1,469,603	29.94p	–	–

At 31 March 2009 the following options have been granted and remain outstanding in respect of ordinary shares of 1p in the Company under the Company's EXSOS scheme.

Dates of grant	24 August 2007 – 9 October 2007	30 June 2006
Exercisable two years following date of grant	24 August 2009 – 8 October 2017	30 June 2008 – 29 June 2016
Number of shares	549,426	501,047
Exercise price per share	35.00p-36.50p	29.94p
Fair value per share	8.41p-8.83p	0.5p

The fair value of the options has been calculated using the Black-Scholes model with the following inputs. Expected volatility is based on the historical share price volatility.

Share price at date of grant	36.50p-38.50p	14.97p
Expected life	2.5 years	2.5 years
Expected volatility	29.9%	29.9%
Risk free rate	4.08%-4.57%	4.68%
Expected dividend yield	Nil	Nil

The following table reconciles outstanding share options at the beginning and end of the financial year.

EXSOS Share option scheme	2009		2008	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
1 April	1,356,339	33.08p	668,063	29.94p
Granted	–	–	688,276	36.13p
Exercised	–	–	–	–
Forfeited	(305,866)	32.92p	–	–
31 March	1,050,473	33.13p	1,356,339	33.08p
Exercisable	501,047	29.94p	–	–

## Notes to the Consolidated Financial Statements

for the year ended 31 March 2009

### 27 Cash generated from operations

	2009 £	2008 £
Operating loss for the year	(4,704,804)	(1,071,193)
Adjustments for:		
Depreciation	120,734	89,623
Impairment of goodwill	2,624,387	–
Amortisation of intangible assets	120,000	60,000
Impairment of intangible assets	646,700	–
Revaluation of investments held for sale	381,636	72,704
Loss on sale of investments held-for-sale	14,840	3,333
Loss on disposal of property, plant and equipment	2,001	–
Impairment of available for sale investments	–	93,567
Share based payment expense	140,088	117,397
Changes in working capital:		
(Increase)/decrease in receivables	2,208,475	(59,112)
(Decrease)/increase in payables	(2,641,344)	(132,703)
<b>Net cash outflow from operating activities</b>	<b>(1,087,287)</b>	<b>(826,384)</b>

### 28 Financial commitments

Total commitments under leases entered into by the Group at 31 March were:

	Land and buildings		Other	
	2009 £	2008 £	2009 £	2008 £
<b>Leases expiring:</b>				
Within one year	226,788	221,388	27,464	27,691
Between one and five years	468,743	626,013	80,922	105,202
Over five years	–	63,619	–	–
	<b>695,531</b>	911,020	<b>108,386</b>	132,893

## Company Balance Sheet

as at 31 March 2009

	Notes	2009 £	2009 £	2008 £	2008 £
<b>Fixed assets</b>					
Investments	30		<b>5,300,000</b>		13,616,496
			<b>5,300,000</b>		13,616,496
<b>Assets Due after more than one year</b>					
Subordinated loan	32		<b>600,000</b>		–
<b>Current assets</b>					
Debtors	33	<b>73,033</b>		18,711	
Investments		–		313,889	
Cash at bank and in hand		<b>555,840</b>		–	
			<b>628,873</b>	332,600	
<b>Creditors: amounts falling due within one year</b>	34	<b>(586,983)</b>		(594,485)	
<b>Net current assets</b>			<b>41,890</b>		(261,885)
<b>Net assets/(liabilities)</b>			<b>5,941,890</b>		13,354,611
<b>Capital and reserves</b>					
Called up share capital	36		<b>3,272,227</b>		3,114,727
Share premium account	38		<b>11,705,061</b>		10,340,169
Share based payment reserve	40, 43		<b>292,485</b>		152,397
Profit and loss account	39		<b>(9,327,883)</b>		(252,682)
<b>Equity shareholders funds</b>	37		<b>5,941,890</b>		13,354,611

These financial statements were approved by the board of directors and authorised for issue on 29 July 2009.

Signed on behalf of the board of directors

**P T Claridge**

Director

The notes on pages 40 to 45 form an integral part of these consolidated financial statements.

## Company Cash Flow Statement

for the year ended 31 March 2009

	Notes	2009 £	2008 £
<b>Net cash (outflow)/inflow from operating activities</b>	41	<b>(328,455)</b>	492,385
<b>Returns on investment and servicing of finance</b>			
Interest received		11,024	14,350
Dividends received from subsidiaries		–	430,000
<b>Net cash inflow from returns on investment and servicing of finance</b>		<b>11,024</b>	444,350
<b>Taxation</b>		<b>1,406</b>	(11,690)
<b>Capital expenditure and financial investment</b>			
Subordinated loan to MSGL		(600,000)	–
Proceeds from disposal of investments held for sale		–	10,000
<b>Net cash (outflow)/inflow from capital expenditure and financial investment</b>		<b>(600,000)</b>	10,000
<b>Acquisitions and disposals</b>			
Purchase of investments in subsidiaries		(50,527)	(2,670,182)
Cost of acquisition		–	(93,898)
<b>Net cash outflow from acquisitions and disposals</b>		<b>(50,527)</b>	(2,764,080)
<b>Financing</b>			
Proceeds from the issue of share capital (net of issue costs)		1,522,392	1,504,545
<b>Net cash inflow from financing</b>		<b>1,522,392</b>	1,504,545
<b>Net increase/(decrease) in cash/intercompany balances in the year</b>		<b>555,840</b>	(324,490)

The notes on pages 40 to 45 form an integral part of these consolidated financial statements.

## Notes to the Financial Statements of the Company

for the year ended 31 March 2009

### 29 Accounting policies

(a) **Basis of presentation**

Merchant Securities plc (the "Company") is a company incorporated in England.

These financial statements have been prepared under the historical cost convention and applicable accounting standards and in accordance with the Companies Act 1985. As permitted by the Act, the separate financial statements have been prepared in accordance with UK Generally Accepted Accounting Principles (UK GAAP).

The accounting policies set out below have, unless otherwise stated, been applied consistently in these financial statements.

The Company has taken advantage of the exemption provided by Section 230 of the Companies Act 1985 not to present its own income statement. There are no recognised gains and losses other than those included in the profit and loss account.

(b) **Turnover**

Turnover represents services supplied, exclusive of value added tax. All of the Company's turnover originated in the United Kingdom.

(c) **Investments**

Investments in subsidiary undertakings are stated at cost less any provision for diminution in value.

Investments in companies listed on a recognised stock exchange purchased and held for re-sale are stated at the lower of cost and net realisable value.

(d) **Provisions**

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(e) **Taxation**

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

(f) **Share based payment**

Equity settled cash transactions are recognised at the cash value of the services received. The corresponding equity credit is allocated to share capital, share premium or to the share based payment reserve as appropriate.

## Notes to the Financial Statements of the Company

for the year ended 31 March 2009

### 30 Investments

Fixed asset investments	2009 £	2008 £
Net book value at 1 April	13,616,496	8,135,019
Additions at fair value	190,614	5,481,477
Diminution in value of investments	(8,507,110)	–
Net book value at 31 March	5,300,000	13,616,496

The subsidiary undertakings of Merchant Securities plc and their countries of incorporation are:

	Country of incorporation	Principal activity	Class of shares held	Percentage of shares held
Merchant Securities Group Limited*	England & Wales	Institutional and Private Client Stockbroking	Ordinary	100%
John East & Partners Limited*	England & Wales	Corporate Finance advice, raising capital and listing companies	Ordinary	100%
Merchant Securities (Nominees) Limited*	England & Wales	Dormant Company	Ordinary	100%
Merchant Securities Holdings Limited	England & Wales	Dormant Holding Company	Ordinary	100%
Vestry Nominees Limited *	England & Wales	Dormant Company	Ordinary	100%
East Worlidge Holdings Limited	England & Wales	Dormant Holding Company	Ordinary	100%

\*Shareholding held indirectly.

Current asset investments	2009 £	2008 £
At 1 April	313,889	390,000
Disposals at cost	–	(13,333)
Provision for diminution in value	(313,889)	(62,778)
Net book value at 31 March	–	313,889

Current asset investments have been written off in the year due to the marketability and illiquid nature of the investments.

The market value of the investments at 31 March 2009 was £118,232. (2008: £313,889).

### 31 Directors remuneration

Refer to note 9 of the consolidated financial statements.

The Company had no employees except for the directors of the Company.

## Notes to the Financial Statements of the Company

for the year ended 31 March 2009

<b>32</b>	<b>Assets due after more than one year</b>	2009 £	2008 £
	Subordinated loan to Merchant Securities Group Limited	600,000	–

The Subordinated Loan of £600,000 to Merchant Securities Group Limited is for a term of 5 years, can only be repaid following approval from the FSA and bears discretionary interest at the rate applicable to short dated gilts.

<b>33</b>	<b>Debtors</b>	2009 £	2008 £
	Owed by subsidiary undertakings	47,375	–
	Prepayments	2,917	2,750
	Corporation tax	22,741	15,560
	Other debtors	–	401
		<b>73,033</b>	<b>18,711</b>

<b>34</b>	<b>Creditors: amounts falling due within one year</b>	2009 £	2008 £
	Trade creditors	1,235	2,946
	Amounts owed to subsidiary undertakings	534,548	564,778
	Accruals and deferred income	51,200	26,761
		<b>586,983</b>	<b>594,485</b>

Amounts due to subsidiary undertakings are non-interest bearing and are repayable on demand.

<b>35</b>	<b>Tax on loss on ordinary activities</b>	2009 £	2008 £
	<b>Analysis of Tax Credit in the year</b>		
	<b>Current Tax</b>		
	UK corporation tax – current year	–	–
	UK corporation tax – adjustments in respect of prior years	(8,586)	(13,376)
	<b>Tax on Loss on Ordinary Activities</b>	<b>(8,586)</b>	<b>(13,376)</b>
	<b>Factors Affecting Tax Credit for the Year</b>		
	Loss on ordinary activities before taxation	<b>(9,083,787)</b>	(100,142)
	Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 28% (2008: 30%)	<b>(2,543,460)</b>	(30,043)
	Effects of:		
	Losses surrendered to group companies	–	12,021
	Non-deductible expenses	2,381,991	–
	Losses carried forward	161,469	18,022
	Adjustment to tax charge in respect of previous year	(8,586)	(13,376)
	Current tax liability	<b>(8,586)</b>	<b>(13,376)</b>

There are trading losses available to carry forward of approximately £636,000 (2008: £60,000).

## Notes to the Financial Statements of the Company

for the year ended 31 March 2009

36 Called up share capital	2009 £	2008 £
<b>Authorised</b>		
50,000,000 1p New Ordinary shares (2008 – 50,000,000 10p ordinary shares)	<b>500,000</b>	5,000,000
50,000,000 9p Deferred shares (2008 – Nil)	<b>4,500,000</b>	–
	<b>5,000,000</b>	5,000,000
<b>Called up, allotted and fully paid</b>		
46,897,270 1p New Ordinary shares (2008 – 31,147,270 10p Ordinary shares)	<b>468,973</b>	3,114,727
31,147,270 9p Deferred shares	<b>2,803,254</b>	–
	<b>3,272,227</b>	3,114,727

The authorised share capital of MSPLC at 1 April 2008 was 50,000,000 shares of 10 pence each (£5,000,000), of which 31,147,270 (£3,114,727) were in issue. On 22 July 2008, the Company undertook a capital reorganisation which split each existing 10p ordinary share into a 1p New Ordinary share plus a 9p Deferred share. In addition the Company placed 15,750,000 New Ordinary shares of 1p each at 10 pence per share. The Deferred shares have no voting rights nor any entitlement to any dividends nor to attend general meetings. The Board intends to apply to the High Court at the appropriate time for the Deferred shares to be cancelled.

37 Reconciliation of movements in equity shareholders funds	2009 £	2008 £
At beginning of the year	<b>13,354,611</b>	8,789,435
New shares issued	<b>157,500</b>	1,172,727
Movement in share premium account	<b>1,364,892</b>	2,931,818
Other reserves	<b>140,088</b>	117,397
(Loss)/Profit for the year	<b>(9,075,201)</b>	343,234
At 31 March	<b>5,941,890</b>	13,354,611

38 Reconciliation of movements in share premium account	2009 £	2008 £
At beginning of the year	<b>10,340,169</b>	7,408,351
Issued in year (net of issue costs of £52,608)	<b>1,364,892</b>	2,931,818
At 31 March	<b>11,705,061</b>	10,340,169

39 Reconciliation of movements in profit and loss	2009 £	2008 £
At beginning of the year	<b>(252,682)</b>	(595,916)
(Loss)/Profit for year	<b>(9,075,201)</b>	343,234
At 31 March	<b>(9,327,883)</b>	(252,682)

## Notes to the Financial Statements of the Company

for the year ended 31 March 2009

40 Reconciliation of share based payment reserve	2009 £	2008 £
At beginning of the year	152,397	35,000
Movement during the year	140,088	117,397
At 31 March	<b>292,485</b>	152,397

  

41 Net cash flow from operating activities	2009 £	2008 £
Net operating loss	<b>(9,094,810)</b>	(51,714)
Loss on sale of investments	–	3,333
Write-down of investment in subsidiaries	<b>8,507,111</b>	–
Revaluation of investments	<b>313,889</b>	–
(Increase)/decrease in debtors	<b>(47,141)</b>	77,674
(Decrease)/increase creditors	<b>(7,502)</b>	463,092
Net cash (outflow)/inflow from operating activities	<b>(328,455)</b>	492,385

### 42 Fair value disclosures

The fair value of the Company's financial assets is not materially different from their carrying value in the balance sheet.

### 43 Share based payments

The Group runs two equity-settled share based option schemes, an Enterprise Management Incentives ("EMI") scheme and an Executive Share Option Scheme ("EXSOS"). Options expire if the director or employee leaves the Group before exercise or if the options remain unexercised after the exercise period has lapsed.

The Group recognised total expenses of £140,088 (£117,397) related to equity-settled share based payment transactions. The corresponding equity credit has been allocated to the share-based payment reserve. No deferred tax charge or credit has been recognised (2008: deferred tax charge £6,588).

At 31 March 2009 the following options have been granted and remain outstanding in respect of ordinary shares of 1p in the Company under the Company's EMI scheme.

Dates of grant	20 November 2008	24 August 2007 – 9 October 2007	30 June 2006 – 30 October 2006
Exercisable two years following date of grant	23 April 2010 – 19 November 2018	24 August 2009 – 8 October 2017	30 June 2008 – 29 October 2016
Number of shares	1,516,083	1,199,004	1,469,603
Exercise price per share	15.00p-25.00p	35.00p-36.50p	29.94p
Fair value per share	0.83p-1.15p	8.41p-8.83p	0.5p-23.56p

The fair value of the options has been calculated using the Black-Scholes model with the following inputs. Expected volatility is based on the historical share price volatility.

Share price at date of grant	7.00p	36.50p-38.50p	14.97p-50.00p
Expected life	2.5 years	2.5 years	2.18-2.5 years
Expected volatility	67.4%	29.9%	29.9%
Risk free rate	3.62%	4.08%-4.68%	4.68%
Expected dividend yield	Nil	Nil	Nil

## Notes to the Financial Statements of the Company

for the year ended 31 March 2009

## 43 Share based payments (continued)

The following table reconciles outstanding share options at the beginning and end of the financial year.

EMI Share option scheme	2009		2008	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
1 April	4,129,109	31.36p	2,246,160	29.94p
Granted	1,421,083	18.11p	2,142,719	32.79p
Exercised	–	–	–	–
Forfeited	(1,365,502)	27.51p	(259,770)	30.98p
31 March	4,184,690	28.11p	4,129,109	31.36p
Exercisable	1,469,603	29.94p	–	–

At 31 March 2009 the following options have been granted and remain outstanding in respect of ordinary shares of 1p in the Company under the Company's EXSOS scheme.

Dates of grant	24 August 2007 – 9 October 2007	30 June 2006
Exercisable two years following date of grant	24 August 2009 – 8 October 2017	30 June 2008 – 29 June 2016
Number of shares	549,426	501,047
Exercise price per share	35.00p-36.50p	29.94p
Fair value per share	8.41p-8.83p	0.5p

The fair value of the options has been calculated using the Black-Scholes model with the following inputs. Expected volatility is based on the historical share price volatility.

Share price at date of grant	36.50p-38.50p	14.97p
Expected life	2.5 years	2.5 years
Expected volatility	29.9%	29.9%
Risk free rate	4.08%-4.57%	4.68%
Expected dividend yield	Nil	Nil

The following table reconciles outstanding share options at the beginning and end of the financial year.

EXSOS Share option scheme	2009		2008	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
1 April	1,356,339	33.08p	668,063	29.94p
Granted	–	–	688,276	36.13p
Exercised	–	–	–	–
Forfeited	(305,866)	32.92p	–	–
31 March	1,050,473	33.13p	1,356,339	33.08p
Exercisable	501,047	29.94p	–	–

## 44 Related party transactions

The Company has taken advantage of the exemption provided by FRS 8 from the requirement to disclose transactions with other companies in the Group on the basis that consolidated financial statements in which the Company's results are included are publicly available.

## Notice of Annual General Meeting

(see notes on page 49 for a brief explanation of each of the resolutions)

Notice is hereby given of the Company's fourth Annual General Meeting to be held at John Stow House, 18 Bevis Marks, London EC3A 7JB on Wednesday, 23 September 2009 at 9.00 am for the following purposes:

### Ordinary Business

To receive and, if thought fit, pass the following resolutions numbered 1-5 (inclusive) as ordinary resolutions:

1. To receive and adopt the Company's annual accounts for the year ended 31 March 2009, together with the Report of the Directors and the Independent Auditors' Report on those accounts.
2. To reappoint Mr John Foster-Powell, who is retiring by rotation in accordance with the Company's articles of association, as a director and being eligible, offers himself for election.
3. To reappoint Mr John Green, who is retiring by rotation in accordance with the Company's articles of association, as a director and being eligible, offers himself for election.
4. To reappoint Mr Charles Price, who is retiring by rotation in accordance with the Company's articles of association, as a director and being eligible, offers himself for election.
5. To reappoint Horwath Clark Whitehill LLP as auditors, to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company at which accounts are laid and to authorise the directors to fix their remuneration.

### Special Business

To consider and, if thought fit, pass the following resolutions of which resolution 6 will be proposed as ordinary resolutions, and resolutions 7 and 8 will be proposed as special resolutions:

#### Ordinary resolution

6. That in place of all existing authorities the directors be generally and unconditionally authorised pursuant to section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the Company to allot relevant securities (as defined in section 80 (2) of the Act) of the Company up to a maximum aggregate nominal amount of £257,935 representing approximately 55% of the current issued ordinary share capital of the Company provided that:
  - (a) this authority shall expire at the conclusion of the next Annual General Meeting of the Company or earlier, unless previously revoked or renewed by the Company in a general meeting;
  - (b) the Company shall be entitled to make prior to the expiry of such authority any offer or agreement which would or might require relevant securities to be allotted after the expiry of this authority and the directors may allot any relevant securities pursuant to such offer or agreement as if such authority had not expired; and
  - (c) all prior authorities to allot relevant securities be revoked but without prejudice to the allotment of any relevant securities already made or to be made pursuant to such authorities.

#### Special resolution

7. That, subject to and conditional upon the passing of resolution 6 the directors be granted power pursuant to section 95 of the Act to allot equity securities for cash (within the meaning of Section 94 of the Act) pursuant to the authority conferred by the said resolution as if section 89 (1) of the Act did not apply to any such allotment provided that this power shall be limited to:
  - (a) the allotment of equity securities in connection with an issue by way of rights (including, without limitation, under a rights issue, open offer or similar arrangement) in favour of ordinary shareholders on the register on a date fixed by the directors where the equity securities respectively attributable to the interest of all such shareholders are proportionate (as nearly as may be) to the respective numbers of

## Notice of Annual General Meeting

(see notes on page 49 for a brief explanation of each of the resolutions)

the ordinary shares held by them on that date but subject to such exclusions and other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements or other legal or practice difficulties under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory or as regards shares in issue in uncertified form; and

- (b) the allotment (otherwise than pursuant to sub-paragraph a) above) of any equity securities having an aggregate nominal amount, not exceeding in aggregate £93,795 representing approximately 20% of the current issued ordinary share capital of the Company;

and shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or earlier, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

### Special resolution

8. That, the Company be unconditionally and generally authorised in accordance with section 166 of the Act to make market purchases (within the meaning of section 163(3) of the Act) on the London Stock Exchange plc's market for Alternative Investment Market securities, of ordinary shares of 1p each in the capital of the Company provided that:

- (a) the maximum number of ordinary shares hereby authorised to be purchased is limited to an aggregate nominal amount, not exceeding in aggregate £93,795 representing approximately 20% of the Company's issued ordinary share capital at the date of this resolution;
- (b) the minimum price, exclusive of any expenses, which may be paid for each ordinary share is 1p;
- (c) the maximum price, exclusive of any expenses, which may be paid for each share is an amount equal to 105 per cent of the average of the middle market quotations for an ordinary share of the Company as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which such share is contracted to be purchased;
- (d) this authority shall expire on the earlier date of the conclusion of the next Annual General Meeting of the Company or earlier unless such authority is revoked or renewed prior to such time; and
- (e) the Company may make a contract to purchase ordinary shares under this authority prior to the expiry of this authority which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of ordinary shares pursuant to any such contract as if such authority had not expired.

By order of the Board

**R-M Sexton**

Company Secretary

Registered Office:  
John Stow House  
18 Bevis Marks  
London EC3A 7JB

Dated: 29 July 2009

## Notice of Annual General Meeting

### Notes:

- (1) A member of the Company entitled to attend and vote at the above-mentioned Annual General Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his behalf. A proxy need not also be a member.
- (2) A Proxy Form is enclosed. To be valid, the Proxy Form (together with the power of attorney or other authority under which it is signed, or a notarially certified copy thereof) must be received at the office of the Company's Registrars, Capita Registrars, The Proxy Department, Beckenham Road, Beckenham, Kent BR3 4TU, by not later than 9.00 am 21 September 2009 (being 48 hours prior to the time fixed for the meeting) or, in the case of an adjournment, not later than 48 hours prior to the time fixed for the adjourned meeting at which the proxy is to vote.
- (3) Completing and returning the Proxy Form does not preclude a member from attending and voting at the meeting.
- (4) Pursuant to Regulation 41 of The Uncertificated Securities Regulations 2001, only those holders of Ordinary Shares who are registered on the Company's Share Register as at 6.00 pm on 21 September 2009 shall be entitled to attend the Annual General Meeting and to vote in respect of the number of shares registered in their names at that time. Changes to entries on the Share Register after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.
- (5) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the annual general meeting to be held on the above date and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent (ID: RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

## Notice of Annual General Meeting

### Explanatory notes to the Notice of Annual General Meeting

#### Resolution 1 – report and accounts

The directors are required to present the accounts for the year ended 31 March 2009 to the meeting.

#### Resolutions 2, 3 and 4 reappointment of directors

The articles of association of the Company require that one third of the directors of the Company must seek re-election at the Annual General Meeting.

#### Resolution 5 – reappointment of auditors

The Company is required to appoint auditors at each Annual General Meeting to hold office until the next such meeting at which accounts are presented. The resolution proposes the reappointment of the Company's existing auditors, Horwath Clark Whitehill LLP, and authorises the directors to agree their remuneration.

#### Resolution 6 – authority to allot the relevant securities

The Company requires the flexibility to allot equity securities from time to time. Accordingly, resolution 6 seeks to grant (until the next Annual General Meeting or earlier) the directors authority to allot equity securities up to an aggregate nominal amount of £257,935 which represents approximately 55% of the Company's issued share capital at 23 July 2009. Save in respect of the issue of new ordinary shares pursuant to the share incentive schemes, the directors currently have no plans to allot relevant securities but the directors believe it to be in the interests of the Company for the board to be granted this authority to enable the board to take advantage of appropriate opportunities which may arise in the future.

#### Resolution 7 – disapplication of section 89 (1) of the Companies Act 1985

This resolution seeks to disapply the pre-emption rights provisions of section 89 of the Companies Act 1985 in respect of the allotment of equity securities pursuant to rights issues and other pre-emptive issues and in respect of other issues of equity securities for cash up to an aggregate nominal value of £93,795 being approximately 20% of the current issued ordinary share capital. If given, this power will expire at the same time as the authority referred to in resolution 6. The directors consider this power desirable due to the flexibility afforded by it.

#### Resolution 8 – authority to purchase Company's own shares

The articles of association of the Company provide that the Company may from time to time purchase its own shares subject to other consents required by law. Such purchases must be authorised by the shareholders at a general meeting. This resolution seeks to grant (until the next Annual General Meeting or the expiry of 15 months if sooner) the directors authority to purchase the Company's own shares up to a maximum aggregate nominal value of £93,795 being approximately 20% of the issued ordinary share capital of the Company. In proposing this resolution, the directors consider that it is in the best interests of the Company and its shareholders that the directors should keep the ability to make market purchases of the Company's own shares without the cost and delay of an extraordinary general meeting to seek specific authority for a share purchase. It is only exercisable if to do so would increase earnings per share and it is in the best interest of shareholders generally.

### Documents available for inspection

There will be available for inspection at the registered office of the Company during normal business hours on any weekday (excluding Saturdays and public holidays) , and at for at least 15 minutes prior to and during the Annual General Meeting, copies of:

1. The service contract of each executive director and the letter of appointment of each non-executive director.
2. Copies of the current Articles of Association.

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BEEN LEFT BLANK**

# Form of Proxy

## for use at the Annual General Meeting of Merchant Securities plc

I/We, the undersigned, being (a) member/member(s) of Merchant Securities plc, hereby appoint the Chairman of the Meeting (see note 1) or

as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at 9.00 a.m. on 23 September 2009 at the Company's offices at John Stow House, 18 Bevis Marks, London EC3A 7JB and at any adjournment thereof. I/We wish my/our proxy to vote as shown below in respect of the resolutions set out in the Notice of the Meeting.

Resolutions	For	Against	Vote Withheld*	Discretionary
1. To receive the annual accounts of the Company for the year ended 31 March 2009, together with the directors' report and the independent auditors' report, and declare a dividend.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To reappoint Mr John Foster-Powell as a director of the Company who retires by rotation in accordance with the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. To reappoint Mr John Green as a director of the Company who retires by rotation in accordance with the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. To reappoint Mr Charles Price as a director of the Company who retires by rotation in accordance with the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. To reappoint Horwath Clark Whitehill LLP as auditors and to authorise the directors to fix their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. To authorise the directors to allot relevant securities pursuant to section 80 of the Companies Act 1985.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. To disapply pre-emption rights on the allotment of securities pursuant to section 95 of the Companies Act 1985.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. To authorise the Company to make purchases of its own shares at the market rate of up to 20% of the shares in issue.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If you want your proxy to vote in a certain way on the resolutions specified, please place an "X" in the appropriate box. If you select "Discretionary" or fail to select any of the given options your proxy can vote as he/she chooses or can decide not to vote at all. The proxy can also do this on any other resolution that is put to the meeting.

\*The "Vote Withheld" option is to enable you to abstain on any particular resolution. However, it should be noted that a "vote withheld" is not a vote in law and will not be counted in the calculation of the proportion of the votes "For" and "Against" a resolution.

Signed \_\_\_\_\_ Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2009

Name \_\_\_\_\_

Address \_\_\_\_\_

**Notes:**

- If any other proxy is preferred strike out the reference to the Chairman of the Meeting stated above, add the name of the proxy you wish to appoint and initial the alteration. A member may appoint more than one proxy to attend on the same occasion. A proxy need not also be a member of the Company.
- If the appointor is a corporation this form must be executed either under its common seal or under the hand of an officer or attorney duly authorised to sign it. **Please return the form of proxy to Capita Registrars Limited, The Proxy Department, 34 Beckenham Road, Beckenham, Kent BR3 4TU.**
- In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the names stand in the Register of Members. The signature of one holder will suffice, but the names of all the joint holders should be stated.
- Any member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies (who need not be a member of the Company but must attend the meeting in person) of his own choice to attend and to vote in his/her place. To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope. If a member wishes to appoint a proxy other than the Chairman, delete the words "the Chairman of the Meeting or," initial the alteration and insert the name of the person you wish to appoint as your proxy. All members are entitled to attend and vote at the meeting, whether or not they have returned a form of proxy.
- To be valid, this form must be completed and deposited (together with any power of attorney or authority under which this form is signed) at the Company's registrars, at the address shown overleaf, not later than 48 hours before the Annual General Meeting. Deposit of the form of proxy will not preclude a member from attending and voting at the meeting or at any adjournment of it.
- CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the annual general meeting to be held on the above date and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent (ID: RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.



THIRD FOLD AND TUCK IN

BUSINESS REPLY SERVICE  
Licence No. MB 122



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