

Merchant Securities plc
Interim results for the six months ended 30 September 2008

INTERIM REPORT TO SHAREHOLDERS

Merchant Securities plc (“the Group”), the financial services group specialising in institutional and private client stockbroking, corporate finance, corporate broking and private equity, announces its interim results for the six month period ended 30 September 2008.

Financial and operational highlights:

- Continued progress made by the Group in achieving its objective of building a diversified financial services group;
- Revenue of £2.39 million (H1 2007 - £2.11 million);
- Underlying loss before tax of £581,575 (excluding £768,266 of non recurring expenses, amortisation of intangible assets and impairment of investments held for sale);
- Strengthened balance sheet, with net cash balances of £2.3 million at the balance sheet date (31 March 2008 - £1.8 million);
- Private client division continues to develop its traditional business with tailored investment products such as the FTSE “Hindsight” note and CFD activities;
- Private equity funding opportunities continue to be successfully sourced, although none completed in the period;
- The arrival of Richard Crossley, No 1 rated Extel analyst, and his team has led to growth in the institutional client base. The Mercantalyst product has received a good reception from all institutional clients.

Patrick Claridge, Chief Executive, Merchant Securities plc, says:

“The reorganisation and streamlining referred to in the Chairman’s Statement in August 2008 has been successfully completed. The Group is now structured more efficiently and focused to achieve its business objectives.

“Difficult times often yield attractive opportunities and we are actively seeking to expand and strengthen all areas of our activities, both organically and by acquisition. Market conditions are very difficult, but having taken decisive action the board is confident that the Group is now well positioned for any improvement in market conditions. The decision to write-down all investments to nil has resulted in a charge of £421,000 in the first half.

“We have seen more activity across all areas of the business and the Group has shown significant improvement since September 2008. The actions we have taken have improved the profitability of the Group as a whole and the board is confident of an improved performance in the second half”.

Chairman's Statement

Introduction

I am pleased to present our results for the six months ended 30 September 2008, which has seen further progress made by the Group in achieving its objective of building a diversified financial services group. This progress has been made in spite of highly challenging market conditions, unprecedented in recent years.

Operational and financial review

The Group has continued to operate in very difficult market conditions.

A loss before taxation of £1,349,841 was incurred (H1 2007 – profit £90,905). The underlying loss was £581,575, if non cash and non-recurring items were extracted. The one-off losses of £768,266 relate to the costs of implementing the reorganisation referred to in my statement accompanying the annual accounts earlier this year and the non cash items arise from the accounting impact of share based payments, continuing amortisation of the intangible asset and goodwill created following the acquisition of John East & Partners Limited (“JEP”) and a decision to write down all the Group’s investments to nil. A tax credit reduced the loss after taxation to £1,341,255 (H1 2007 – profit £53,182).

Cash balances at the end of the period were £2.3 million. The Group has no debt, with the exception of very modest equipment leases.

Strategic development

During the period, the Group continued to make progress in developing its core activities and strengthening the infrastructure of the business.

Our institutional business and profile have been greatly enhanced by the recruitment of Richard Crossley and his team. Their daily research product, Mercantalytst, an insightful and highly regarded technical review of trends in markets, is now received by a number of institutional clients. Revenue began to be generated from this source during September, right at the end of the period under review.

Conventional private client business has been subdued, but we have created a number of structured investment products, such as the FTSE “Hindsight” note, which are designed to be very much in tune with the current market environment and these have proved to be popular with clients. The contract for differences (“CFD”) activity continues to grow and provides clients who wish to trade the market on a more active basis with the opportunity to do so.

JEP continues to provide corporate finance and broking services to its list of 40 retained clients. Although it only carried out a small number of transactions in the period, its retainer income and controlled overhead base enabled it to achieve a modest loss, which was close to breakeven in extremely challenging conditions.

Our private equity activities, which provides capital for unquoted companies from a client base that wishes to invest in such companies, have been reorganised under Nick Edmonstone and now operates from a new branch office in Guildford, where a number of opportunities are in progress.

Board changes

I am pleased to welcome John Foster-Powell to the board, which he joined as chief financial officer earlier this month. He had been the group interim financial controller since August this year. John has over 25 years' experience in the financial services industry, where he has held various positions in finance with increasing managerial responsibilities. John is a fellow of the Chartered Association of Certified Accountants, a member of the Chartered Institute of Bankers and an associate member of the Association of Corporate Treasurers. His previous directorships were at United Trust Corporation PLC and Equity Trustees (UK), both subsidiaries of the Insinger Group. We are pleased to have him as part of the executive team.

Outlook

Whilst all activities of the Group continue to be affected by extremely difficult market conditions, the board believes that its objective of developing a diversified financial services group remains the correct approach. We continue to seek to enhance our institutional and private client activities and have been encouraged by the institutional response to Mercantalytst, which we expect to make a greater contribution in the second half of the year. Our private equity team has been working on several transactions for some time. None of these closed in the period under review, but we are optimistic that some will be completed and generate revenue in the second half of the year.

A plan to reorganise, streamline operations and reduce overheads was implemented during the period and tight control continues to be kept on costs. JEP has a number of projects in hand, but market conditions remain difficult.

Such conditions can create opportunities as competitors reduce their activities in sectors in which we operate. We are alert to these and pursue them where we are best placed to do so. We are recruiting selectively and will investigate corporate opportunities for consolidation. Our current expectations are for an improved performance in the second half of the year, as we continue to strive to deliver the best possible result for shareholders.

John Green

Chairman

27 November 2008

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About Merchant Securities plc

Merchant Securities plc provides a range of financial service products and advice to high net worth private clients, institutions and small businesses. The Company is the ultimate parent undertaking of two trading subsidiary companies, both of which are authorised by the Financial Services Authority. Merchant Securities Group Limited provides a variety of services including asset and advisory management to high net worth private clients, sales trading to institutional investors, and private equity funding for UK companies. John East & Partners Limited is a corporate member of the London Stock Exchange, an approved nominated adviser and broker and a registered sponsor, specialising in providing corporate finance advice services and raising capital for smaller companies.

MERCHANT SECURITIES PLC

Interim unaudited accounts for the six months ended 30 September 2008

CONSOLIDATED INCOME STATEMENT

	Six months to 30 September 2008 Unaudited £	Six months to 30 September 2007 Unaudited £	Year ended 31 March 2008 Audited £
Revenue	2,381,543	2,110,753	5,337,254
Cost of sales	(426,428)	(213,239)	(1,481,062)
Gross Profit	1,955,115	1,897,514	3,856,192
Other income	3,601	7,932	43,929
General administrative expenses	(2,626,046)	(1,900,456)	(4,345,996)
Amortisation of intangible assets	(60,000)	-	(60,000)
Revaluation of assets held for sale	(421,476)	(55,250)	(72,704)
Impairment of available-for-sale investments	-	-	(93,567)
Non-recurring items	(286,790)	-	(399,047)
Operating loss	(1,435,596)	(50,260)	(1,071,193)
Investment revenues	157,597	188,287	416,423
Interest payable	(71,842)	(47,122)	(120,380)
Loss on disposal of available-for-sale investments	-	-	(3,333)
(Loss) / profit before taxation	(1,349,841)	90,905	(778,483)
Taxation	8,586	(37,723)	42,836
(Loss) / profit attributable to equity holders	(1,341,255)	53,182	(735,647)

Earnings per share

Basic	(3.61p)	0.27p	(2.97p)
Diluted	(3.61p)	0.24p	(2.97p)

The (loss) / profit for the period attributable to equity holders of the Group is as follows:			
(Loss) / profit before tax, goodwill impairment, revaluation of investments and non-recurring items	(581,575)	146,155	(153,165)
Amortisation of intangible assets	(60,000)	-	(60,000)
Revaluation of investments held for sale	(421,476)	(55,250)	(72,704)
Impairment of available-for-sale investments	-	-	(93,567)
Non-recurring items	(286,790)	-	(399,047)
	(1,349,841)	90,905	(778,483)
Taxation	8,586	(37,723)	42,836
	(1,341,255)	53,182	(735,647)

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSES

Loss on revaluation of available-for-sale shares, options and warrants taken to equity	-	(64,760)	(25,191)
Deferred tax on losses on available-for-sale shares, options and warrants	-	19,428	8,549
Share issue costs charged to share premium account	(52,608)	-	-
Net expenses recognised directly in equity	(52,608)	(45,332)	(16,642)
Permanent diminution in value of investments	-	-	93,567
(Loss) / profit for the period	(1,341,255)	53,182	(735,647)
Total recognised income and expenses in the period	(1,393,863)	7,850	(658,722)

BALANCE SHEET

	30 September 2008 Unaudited £	30 September 2007 Unaudited £	31 March 2008 Audited £
Non-current assets			
Goodwill	5,127,860	2,708,015	5,127,860
Intangible assets	1,269,000	-	1,329,000
Property, plant and equipment	331,775	70,154	385,762
Available-for-sale investments	-	10,000	49,569
Trade and other receivables	150,000	-	150,000
	<u>6,878,635</u>	<u>2,788,169</u>	<u>7,042,191</u>
Current assets			
Trade and other receivables	876,668	2,916,087	3,085,655
Trading investments	-	334,750	346,636
Cash and cash equivalents	2,270,351	2,275,026	1,793,344
Deferred tax asset	-	56,629	-
	<u>3,147,019</u>	<u>5,582,492</u>	<u>5,225,635</u>
Total assets	<u>10,025,654</u>	<u>8,370,661</u>	<u>12,267,826</u>
Current liabilities			
Trade and other payables	(915,495)	(2,897,767)	(3,367,473)
Current tax liabilities	-	(142,658)	(45,678)
	<u>(915,495)</u>	<u>(3,040,425)</u>	<u>(3,413,151)</u>
Non-current liabilities			
Deferred tax liabilities	(20,700)	(3,000)	(34,579)
Total liabilities	<u>(936,195)</u>	<u>(3,043,425)</u>	<u>(3,447,730)</u>
Total assets less liabilities	<u>9,089,459</u>	<u>5,327,236</u>	<u>8,820,096</u>
Equity			
Share capital	3,272,227	1,942,000	3,114,727
Share premium account	11,705,061	7,408,351	10,340,169
Other reserves	(3,845,350)	(3,845,350)	(3,845,350)
Retained earnings	(2,318,792)	(188,708)	(977,537)
Revaluation reserve/(deficit)	35,690	(86,567)	35,690
Share-based payment reserve	240,623	97,510	152,397
Equity attributable to equity holders	<u>9,089,459</u>	<u>5,327,236</u>	<u>8,820,096</u>

CASH FLOW STATEMENT

	Six months to 30 September 2008 Unaudited £	Six months to 30 September 2007 Unaudited £	Year ended 31 March 2008 Audited £
Cash flow from operating activities			
Cash generated from operations	1,081,089	67,492	(826,384)
Interest received	157,597	188,287	416,423
Interest paid	(71,842)	(47,122)	(120,380)
Tax (paid)	(45,678)	(29,647)	(101,238)
Net cash generated from / (used in) operating activities	<u>(1,041,012)</u>	<u>179,010</u>	<u>(631,579)</u>
Cash flows from investing activities			
Acquisition of subsidiary business	-	-	(1,064,080)
Purchase of property, plant and equipment	(4,373)	(17,622)	(139,180)
Proceeds from disposal of available-for-sale investments	-	-	10,000
Net cash generated from investing activities	<u>(4,373)</u>	<u>(17,622)</u>	<u>(1,193,260)</u>
Cash flows from financing activities			
Net proceeds from sale of shares	1,522,392	-	1,504,545
Net cash generated from financing activities	<u>1,522,392</u>	<u>-</u>	<u>1,504,545</u>
Net (decrease) / increase in cash and cash equivalents	477,007	161,388	(320,294)
Cash and cash equivalents at beginning of period	1,793,344	2,113,638	2,113,638
Cash and cash equivalents at end of period	<u>2,270,351</u>	<u>2,275,026</u>	<u>1,793,344</u>

NOTES

Note 1 – Accounting policies

Basis of preparation

The consolidated interim financial information has been prepared in accordance with IAS 34 'Interim Financial Reporting'. These policies are in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union.

The interim financial statements have been prepared on the basis of the accounting policies as stated in the consolidated financial statements for the year ended 31 March 2008. The interim financial statements should be read in conjunction with those audited financial statements for the year ended 31 March 2008.

The financial information set out in this interim statement is unaudited and does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985.

The statutory accounts for the year ended 31 March 2008, which were prepared under IFRS, have been delivered to the Registrar of Companies. The auditors of the Group, Horwath Clark Whitehill LLP, reported on those accounts: their report was unqualified and did not contain a statement under either Section 237 (2) or Section 237 (3) of the Companies Act 1985.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 2 – Basis of consolidation

The financial information incorporates the results of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

All intra-group transactions, balances, income and expenses have been eliminated on consolidation.

Note 3 – Revenue and gross profit by segment

The Group's results for the period ended 30 September 2008, all of which were generated within the United Kingdom, can be analysed by product as follows:

	Six months to 30 September 2008 Unaudited £	Six months to 30 September 2007 Unaudited £	Year ended 31 March 2008 Audited £
Revenue			
Private client and institutional broking	1,514,047	1,504,758	3,027,287
Corporate finance and private equity	871,097	585,995	2,309,967
Unallocated	-	20,000	-
	<u>2,385,144</u>	<u>2,110,753</u>	<u>5,337,254</u>
Cost of sales			
Private client and institutional broking	(382,064)	(152,910)	(890,393)
Corporate finance and private equity	(44,364)	(34,350)	(590,669)
Unallocated	-	(25,979)	-
	<u>(426,428)</u>	<u>(213,239)</u>	<u>(1,481,062)</u>
Gross Profit	<u>1,955,115</u>	<u>1,897,514</u>	<u>3,856,192</u>

Note 4 – Taxation

Taxation disclosed in the Consolidated Income Statement represents an estimate of 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 the estimated taxable profit for the period. 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 periods 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)**

The tax charge is based on the results for the period of ordinary activities and movement in deferred tax.

	Six months to 30 September 2008 Unaudited £	Six months to 30 September 2007 Unaudited £	Year ended 31 March 2008 Audited £
Current UK corporation tax	5,293	58,698	(62,818)
UK Corporation tax adjustments in respect of prior periods	-	-	(2,670)
Deferred tax	<u>(13,879)</u>	<u>(20,975)</u>	<u>22,652</u>
	<u>(8,586)</u>	<u>37,723</u>	<u>(42,836)</u>

Note 5 - Earnings per share

The basic and diluted earning per share is calculated based on:

	Six months to 30 September 2008 Unaudited £	Six months to 30 September 2007 Unaudited £	Year ended 31 March 2008 Audited £
Basic EPS			
(Loss)/profit for the period	(1,341,255)	53,182	(735,647)
Weighted average number of shares in issue	37,171,860	19,420,000	24,757,165
Diluted EPS			
(Loss)/profit for the period	(1,341,255)	53,182	(735,647)
Weighted average number of shares in issue	42,716,672	22,583,165	29,230,411

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)**

Note 8 – Reconciliation of changes in equity

	Called up share capital	Revaluation reserve	Share premium	Share based payment reserve	Other reserves	Retained earnings	Total equity
	£	£	£	£	£	£	£
Equity as at 1 April 2007	1,942,000	(41,235)	7,408,351	64,066	(3,845,350)	(241,890)	5,285,942
Revaluation of investments available for sale at fair value		(64,760)					(64,760)
Deferred tax credit		19,428					19,428
Profit for the 6 months ended 30 September 2007						53,182	53,182
Total recognised income and expenses for the period		(45,332)				53,182	7,850
Share based payments				33,444			33,444
Equity as at 30 September 2007	1,942,000	(86,567)	7,408,351	97,510	(3,845,350)	(188,708)	5,327,236
Revaluation of investment at fair value		133,136					133,136
Deferred tax credit		(10,879)					(10,879)
Loss for the 6 months ended 31 st March 2008						(788,829)	(788,829)
Total recognised income and expenses for the period		122,257				(788,829)	(788,829)
Issue of shares	1,172,727		2,931,818				4,104,545
Share based payments				54,887			54,887
Equity as at 31 March 2008	3,114,727	35,690	10,340,169	152,397	(3,845,350)	(977,537)	8,820,096
Loss for the 6 months ended 30 September 2008						(1,341,255)	(1,341,255)
Share issue costs			(52,608)				(52,608)
Total recognised income and expenses for the period			(52,608)			(1,341,255)	(1,393,863)
Issue of shares net of costs	157,500		1,417,500				1,575,000
Share based payments				88,226			88,226
Equity as at 30 September 2008	3,272,227	35,690	11,705,061	240,623	(3,845,350)	(2,318,792)	9,089,459