

Annual Report 2008



MERCHANT SECURITIES PLC

CONTENTS

	Page
Company information	2
Chairman’s statement	3-4
Report of the directors	5-8
Auditors’ report	9-10
Consolidated income statement	11
Consolidated statement of recognised income and expense	12
Consolidated balance sheet	13
Consolidated cash flow statement	14
Notes to the consolidated financial statements	15-35
Company balance sheet	36
Company cash flow statement	37
Notes to the financial statements of the company	38-44
Notice of Annual General Meeting	45-48

MERCHANT SECURITIES PLC

COMPANY INFORMATION

FOR THE YEAR ENDED 31 MARCH 2008

Directors:	J L Green P T Claridge J R A East (appointed 9 October 2007) C B Price F A B Fabrizi (resigned 13 June 2008) C M Hyde (appointed 25 March 2008) (resigned 7 August 2008) S J Whelton (resigned 20 March 2008)	Chairman Chief Executive Officer Executive Director Non-Executive Director
Company Secretary:	R-M Sexton	
Registered Office:	John Stow House 18 Bevis Marks London EC3A 7JB	
Registered Number:	05347651	
Auditors:	Horwath Clark Whitehill LLP Chartered Accountants and Registered Auditors St. Bride's House 10 Salisbury Square London EC4Y 8EH	
Nominated Adviser & Broker:	Arden Partners plc Nicholas House 3 Laurence Pountney Hill London EC4R 0EU	
Registrar:	Capita IRG plc The Registry 34 Beckenham Road Beckenham Kent BR3 4TU	
Abbreviations:	MSPLC or Company or Group MSG EWH ¹ JEP IDMSA	Merchant Securities plc Merchant Securities Group Limited East, Worlidge Holdings Limited John East & Partners Limited Dom Maklerski IDM Spółka Akcyjna

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

MERCHANT SECURITIES PLC

CHAIRMAN'S STATEMENT

Introduction

I am pleased to present our results for the year ended 31 March 2008, which has seen significant progress made by the Company in achieving its strategy of building a diversified financial services group. Much progress has been made in highly challenging market conditions.

The financial performance reflects the investment made in restructuring the Company which, together with market conditions, contributed to a loss before taxation of £778,000 for the year ended 31 March 2008.

Strategic development

During the year the Company made real progress in developing its core activities and strengthening the infrastructure of the business. We have furthered our aspirations in the corporate finance arena with the acquisition of John East & Partners Limited ("JEP") in October last year. JEP, which has been established some 20 years, is a broadly based corporate finance and corporate broking business. It is a member of the London Stock Exchange, an authorised nominated adviser to companies quoted on AIM and has 40 retained corporate clients, 37 of which are quoted on AIM. It traded profitably in the financial year in the period since its acquisition. JEP's executive chairman, John East, joined the board of the Company following completion of the acquisition.

In February, Merchant Securities Group Limited ("MSG") introduced a new, upgraded private client investment management system and settlement and clearing functions were transferred to Pershing Securities Limited, a leading international clearing house.

Since the year end our institutional offering has been strengthened with the recruitment of Richard Crossley, John Coulson and Richard Bayley. Richard Crossley has been ranked in the Thomson Extel Survey since its inception and was voted No 1 technical and strategic analyst for 2004 – 2007. John Coulson has over 30 years' experience of institutional sales in the City, with such firms as Laurence Prust & Co, James Capel and WestLB Panmure, now Panmure Gordon & Co, where he was head of sales. Richard Bayley has a Ph.D in pure mathematics from Queen Mary College, University of London and works with Richard Crossley, bringing a systematic approach to the technical analysis behind the daily publication, "Mercantalyt", an insightful and highly regarded technical review of trends in markets.

The contract for differences ("CFD") activity is a growing and successful part of MSG's business and has been further strengthened by the recruitment of a specialist team headed by John Readings.

In July 2008 we raised £1.58 million by way of a placing which was supported by management, Gartmore and Dom Maklerski IDM Spółka Akcyjna ("IDMSA"). IDMSA is a Polish independent, non-bank brokerage house with 18 offices throughout Poland and is a member of and listed on the Warsaw Stock Exchange with a market capitalisation of approximately £75 million. In 2007 IDMSA concluded fund raising transactions with a total value of approximately £500 million. We welcome the involvement of IDMSA, which now holds 8 million shares in the Company, equivalent to 17.1 per cent. of our share capital, and hope for a strategic and collaborative relationship.

Operational and financial review

In a trading update issued on 1 May, we estimated the post tax loss for the year under review to be in the region of £600,000, after taking into account non-recurring items of approximately £400,000.

In the event, the loss before taxation was £778,000 including non-recurring items of £400,000. A tax credit reduced the loss after taxation to £736,000. Included in the loss for the year were non cash items of £226,000, being amortisation of the intangible asset and goodwill created following the acquisition of JEP, a revaluation of investments held for sale and the impairment of an investment written off against reserves in last years' accounts. Under IFRS, the impairment is now considered permanent and has had to be taken through the profit and loss account, although, because the loss was recognised through reserves last year, there is no impact on the net assets of the group.

MERCHANT SECURITIES PLC

CHAIRMAN'S STATEMENT

The proceeds of the placing referred to above, have increased net assets of the Group to £9.8 million and our cash balances at the end of July 2008 were £2.9 million. The Group has no debt, with the exception of very modest equipment leases.

In June 2008, Merchant Securities Group Limited ("MSGL") entered into an agreement with the Financial Services Authority ("FSA") to settle an investigation by the FSA of the firm's systems and controls for the protection of customer information. The settlement resulted in MSGL being fined £77,000, although the FSA found no evidence of any theft or compromise of customer information. We took heed of the FSA's concerns and immediately undertook a thorough review of all systems and controls for the protection of customer data to ensure that they were robust and we are confident that any shortcomings in systems and controls identified by the FSA have been fully resolved.

Board Changes

During the year under review and after the year end there have been a number of board changes. John East joined the board in October last year and Steve Whelton, our former finance director left the Company in March to be replaced by Christopher Hyde who joined the board at the end of March. Following the reorganisation referred to below, Tony Fabrizi stepped down from the board to concentrate on corporate finance. Tony was instrumental in the creation of the group and thanks are due to him for his contribution. Patrick Claridge, formerly chief operating officer replaced him as acting chief executive and the Company today announces that he has been confirmed in that position. More recently, Christopher Hyde left the Company by mutual consent and we have appointed an experienced interim group financial controller, with a view to making a permanent appointment as soon as possible.

Outlook

Whilst all activities of the Company were adversely affected by the deterioration in markets, the board believes that its strategy of developing a diversified financial services group remains the correct approach. We will seek to enhance our institutional and private client activities and maintain our involvement in the private equity arena, where we believe that a funding gap exists for unquoted companies with a value of less than £5 million.

The board recently instigated a plan to reorganise and streamline operations and reduce overheads. To this end substantial progress has been made in the first quarter of the financial year. The CFD business continues to grow, benefiting from the current volatility in markets and is now making a positive contribution. JEP's income has diminished as the flotation market has contracted, but its general broadly based corporate finance activities and contracted retainer income, together with one large IPO, has enabled it to generate a small profit in the first quarter of the current financial year. Overall the Group as a whole has continued to trade at a loss in the current financial year. To mitigate this, costs have been taken out of the business and all costs are under detailed scrutiny. Costs have also been incurred prior to the generation of revenue by the new institutional equity team.

We expect market conditions to remain difficult, but believe that the diversity of our business activities, namely institutional and private client broking, trading CFDs and corporate finance and corporate broking, combined with a reduced cost base, will assist the Group as we strive to deliver the best possible result for shareholders.

Finally, I would like to thank our shareholders for their support and also express my thanks to all members of staff who have worked so hard in a difficult year.

John Green

Chairman

21 August 2008

MERCHANT SECURITIES PLC

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 2008.

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, execution, settlement and custody for domestic and foreign equities, equity derivatives, bonds, equity-linked structured products and collective investment schemes. These activities are all provided by Merchant Securities Group Limited ("MSG"). In addition and following the acquisition 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 and Manchester. 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 the 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, gross margin, 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 2008 the Group transacted with approximately 692 private and institutional clients compared with approximately 670 during the year ended 31 March 2007.

Other key performance indicators

During the year, the Group has successfully expanded its core activities both organically with the recruitment of key individual specialist traders and with the acquisition of complementary businesses. Following the acquisition of John East & Partners, the staff numbers have increased to 41 at the end of the year.

The Group has undertaken a thorough review of systems used and has contracted with Pershing Securities Limited to outsource its back office and settlement systems. Work on the transfer of business to the new system was completed early in the new financial year. These will lead to improved efficiency and establish the platform to allow the group to expand. During the year Merchant Securities became a member firm of the London Stock Exchange.

Strategy and business objectives

The Group's key areas of activity 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 has recently 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

MERCHANT SECURITIES PLC

REPORT OF THE DIRECTORS

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.

Principal risks and uncertainties

The directors consider that the key risks to the Group are market environment, 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. Counterparties are all regulated entities in major financial markets. Exposure is spread over a large number of clients and counterparties. 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 appropriate rating agencies.

The Group's risk management objectives and policies are outlined below and in Note 19.

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 credit risk, liquidity risk and operational risk. Several high-level procedures are already in place to enable all risks to be better 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, reputational and legal 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 directors do not consider that the Group is materially exposed to foreign exchange risk or interest rate risk.

Directors

The directors of the Company and their interests in the issued ordinary share capital of the company during the year (or at date of resignation) were as follows:

	21 August 2008	31 March 2008	1 April 2007
P T Claridge	2,345,028	1,348,028	990,886
J R A East (appointed 9 October 2007)	4,495,000	3,495,000	—
F A B Fabrizi (resigned 13 June 2008)	5,458,001	5,458,001	4,958,001
J L Green *1	125,431	125,431	82,574
C M Hyde (appointed 25 March 2008), (resigned 7 August 2008)	500,000	—	—
C B Price	416,009	416,009	330,295
S J Whelton (resigned 20 March 2008)	—	61,601	33,030

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

*1 82,574 shares held by Ms Kathleen Green, wife of John Green.

MERCHANT SECURITIES PLC

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 (2007: 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 charitable donations of £Nil during the year (2007: £260), and no political donations (2007: £Nil).

Substantial shareholdings

At 31 March 2008, the following persons held in excess of 3% of the ordinary share capital of the Company:

Shareholder	Number of shares	Percentage held
Anthony Fabrizi	5,458,001	17.52%
Gartmore Investment Limited	3,499,505	11.24%
John East	3,495,000	11.22%
David Worlidge	2,062,857	6.62%
Patrick Claridge	1,348,028	4.32%
Andertec Limited	1,321,181	4.24%
Marylebone Property Holdings Limited	1,227,857	3.94%
Ruffler Bank plc	1,220,591	3.92%
CE/UK Limited	1,189,063	3.81%

Since the year end the Group has announced a capital reorganisation and raised an additional £1.58 million via a placing of ordinary shares at a price of 10 pence per share on 22 July 2008. Following this placing 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.

MERCHANT SECURITIES PLC

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 385 of the Companies Act 1985 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

21 August 2008

MERCHANT SECURITIES PLC

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 2008 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.

MERCHANT SECURITIES PLC

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 2008 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 2008;
- 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;
- 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

26 August 2008

“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.”

MERCHANT SECURITIES PLC

CONSOLIDATED INCOME STATEMENT for the year ended 31 March 2008

	Notes	Year ended 31 March 2008		Year ended 31 March 2007	
		£	£	£	£
Revenue	4		5,337,254		4,090,737
Cost of sales	4		(1,481,062)		(352,740)
Gross profit	4		3,856,192		3,737,997
Other income	4		43,929		9,135
General administrative expenses		4,345,996		3,471,019	
Impairment of goodwill	5		–	422,041	
Amortisation of intangible assets	5, 13	60,000		–	
Revaluation of investments held for sale	5, 15	72,704		95,875	
Impairment of available-for-sale investments	5	93,567		–	
Non-recurring items and AIM admission expenses	5	399,047		385,950	
			(4,971,314)		(4,374,885)
Operating loss	8		(1,071,193)		(627,753)
Investment revenues	6		416,423		195,249
Finance costs	6		(120,380)		(83,190)
Loss on disposal of fixed assets			–		(11,733)
(Loss) / Profit on disposal of available-for-sale investments	7		(3,333)		89,418
Loss before taxation			(778,483)		(438,009)
Taxation	10		42,836		(76,859)
Loss for the year attributable to equity holders of the Company			(735,647)		(514,868)
Earnings per share					
Basic and diluted	11		(2.97p)		(3.23p)

The profit / (loss) for the year attributable to equity holders of the Company is as follows:					
(Loss) / profit before tax, goodwill impairment, revaluation of investments and non-recurring items					
			(153,165)		465,857
Impairment of goodwill		–		422,041	
Amortisation of intangible assets		60,000		–	
Revaluation of investments held for sale		72,704		95,875	
Impairment of available-for-sale investments		93,567		–	
Non-recurring items and AIM admission expenses		399,047		385,950	
	5		(625,318)		(903,866)
			(778,483)		(438,009)
Taxation			42,836		(76,859)
			(735,647)		(514,868)

No dividends were paid during the year (2007: £Nil).

The notes on pages 15 to 35 form an integral part of these consolidated financial statements.

MERCHANT SECURITIES PLC

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the year ended 31 March 2008

		Year ended 31 March 2008 £	Year ended 31 March 2007 £
Loss on revaluation of available-for-sale shares, options and warrants taken to equity	Notes 15	(25,191)	(58,907)
Deferred tax on losses on available-for-sale shares, options and warrants	21	<u>8,549</u>	<u>17,672</u>
Net expenses recognised directly in equity		(16,642)	(41,235)
Permanent diminution in value of investments		93,567	–
Released from equity on disposal of assets		–	(110,684)
Loss for the year		<u>(735,647)</u>	<u>(514,868)</u>
Total recognised income and expense for the year		<u>(658,722)</u>	<u>(666,787)</u>

A reconciliation of the changes in equity is given in Note 23.

The notes on pages 15 to 35 form an integral part of these consolidated financial statements.

MERCHANT SECURITIES PLC

CONSOLIDATED BALANCE SHEET

as at 31 March 2008

	Notes	£	2008 £	£	2007 £
Non-current assets					
Goodwill	12		5,127,860		2,708,015
Intangible assets	13		1,329,000		–
Property, plant and equipment	14		385,762		76,489
Available-for-sale investments	15		49,569		74,760
Trade and other receivables	17		150,000		–
			<u>7,042,191</u>		<u>2,859,264</u>
Current assets					
Trade and other receivables	17	3,085,655		3,022,949	
Trading investments	15	346,636		390,000	
Cash and cash equivalents	18	1,793,344		2,113,638	
Deferred tax asset	21	–		35,654	
			<u>5,225,635</u>		<u>5,562,241</u>
Current liabilities					
Trade and other payables	20	3,367,473		2,999,528	
Current tax liabilities		45,678		113,607	
			<u>(3,413,151)</u>		<u>(3,113,135)</u>
Net current assets					
			<u>1,812,484</u>		<u>2,449,106</u>
Non-current liabilities					
Deferred tax liabilities	21		<u>(34,579)</u>		<u>(22,428)</u>
Total assets less liabilities					
			<u>8,820,096</u>		<u>5,285,942</u>
Equity					
Share capital	22		3,114,727		1,942,000
Share premium account			10,340,169		7,408,351
Other reserves			(3,845,350)		(3,845,350)
Retained earnings			(977,537)		(241,890)
Revaluation reserve / (deficit)			35,690		(41,235)
Share-based payment reserve	24		152,397		64,066
Equity attributable to equity holders of the Company					
			<u>8,820,096</u>		<u>5,285,942</u>

The notes on pages 15 to 35 form an integral part of these consolidated financial statements.

These financial statements were approved by the board of directors and authorised for issue on 21 August 2008.

Signed on behalf of the Board of Directors

P T Claridge
Director

J L Green
Director

MERCHANT SECURITIES PLC

CONSOLIDATED CASH FLOW STATEMENT for the year ended 31 March 2008

	Notes	2008 £	2007 £
Cash flows from operating activities			
Cash (used in) / generated from operations	26	(826,384)	1,103,544
Interest received	6	416,423	195,249
Interest paid	6	(120,380)	(83,190)
Tax paid		(101,238)	(9,993)
Net cash (used in) / generated from operating activities		(631,579)	1,205,610
Cash flows from investing activities			
Acquisition of subsidiary business	25	(1,064,080)	(3,534,858)
Reverse acquisition of MSPLC		–	43,486
Purchase of property, plant and equipment	14	(139,180)	(42,877)
Proceeds from / (cost of) disposal of tangible fixed assets		–	(96)
Proceeds from disposal of available-for-sale investments		10,000	273,918
Net cash used in investing activities		(1,193,260)	(3,260,427)
Cash flows from financing activities			
Proceeds from issue of shares		1,504,545	4,055,000
Net cash generated from financing activities		1,504,545	4,055,000
Net (decrease) / increase in cash and cash equivalents		(320,294)	2,000,183
Cash and cash equivalents at beginning of year		2,113,638	113,455
Cash and cash equivalents at end of year		1,793,344	2,113,638

The notes on pages 15 to 35 form an integral part of these consolidated financial statements.

MERCHANT SECURITIES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 March 2008

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 endorsed by the European Union.

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 2 (Amendment) – Share-based payment

IFRS 3 (revised) – Business combinations

IFRS 8 – Operating Segments

IAS 1 (revised) – Presentation of financial statements

IAS 23 (revised) – Borrowing costs

IAS 27 (revised) – Consolidated and Separate Financial Statements

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

Basis of consolidation

The Group's financial statements consolidate the financial statements of the Company and all its subsidiaries as at 31 March 2008. 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.

MERCHANT SECURITIES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 March 2008

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 17 years.

Property, plant and equipment

Tangible fixed assets are 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 remaining 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.

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.

MERCHANT SECURITIES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 March 2008

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.

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. Any loss arising from impairment of investments is recognised directly in the income statement 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.

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.

MERCHANT SECURITIES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 March 2008

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 2008 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.

Operating expenses and other charges are provided for in full up to the balance sheet date on an accruals basis.

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-Merton 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.

MERCHANT SECURITIES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 March 2008

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.

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.

It is the opinion of the Directors that at 31 March 2008 there was no impairment of goodwill or intangible assets.

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 seventeen years.

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.

Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

MERCHANT SECURITIES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 March 2008

4. REVENUE AND GROSS PROFIT BY SEGMENT

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

MERCHANT SECURITIES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 March 2008

The Group's results for the year ended 31 March 2007, 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 £	TOTAL 2007 £
Revenue	2,577,231	1,513,506	–	4,090,737
Cost of sales	(352,740)	–	–	(352,740)
Gross profit	2,224,491	1,513,506	–	3,737,997
Other income	9,135	–	–	9,135
Intra-departmental adjustments	674,229	(674,229)	–	–
	<u>2,907,855</u>	<u>839,277</u>	<u>–</u>	<u>3,747,132</u>
Administrative expenses	(2,027,365)	(514,606)	(929,048)	(3,471,019)
Impairment of goodwill	–	–	(422,041)	(422,041)
Revaluation of investments held for sale	–	–	(95,875)	(95,875)
AIM admission expenses	–	–	(225,950)	(225,950)
Other non-recurring costs	(160,000)	–	–	(160,000)
Operating (loss) / profit	720,490	324,671	(1,672,914)	(627,753)
Investment revenues	–	–	195,249	195,249
Finance costs	–	–	(83,190)	(83,190)
Loss on disposal of fixed assets	–	–	(11,733)	(11,733)
Profit on disposal of available-for-sale investments	–	–	89,418	89,418
(Loss) / profit before taxation	720,490	324,671	(1,483,170)	(438,009)
Taxation	–	–	(76,859)	(76,859)
(Loss) / profit after taxation	720,490	324,671	(1,560,029)	(514,868)
Other information				
Capital additions (including those resulting from acquisition)	26,588	2,116	331,811	360,515
Share based payments	–	–	35,000	35,000
Depreciation	8,863	960	31,850	41,673
Balance sheet				
Assets	4,593,407	154,179	3,673,919	8,421,505
Liabilities	(2,585,621)	(154,575)	(395,367)	(3,135,563)

The intra-departmental adjustments relate to private equity deals sold by the private client and institutional broking department at values agreed by the heads of the departments.

MERCHANT SECURITIES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 March 2008

5. PARTICULAR ADMINISTRATIVE EXPENSES

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

	Notes	2008 £	2007 £
Write-off of goodwill	12	–	422,041
Amortisation of intangibles	13	60,000	–
Revaluation of investments held for sale	15	72,704	95,875
FSA breach and one-off professional costs		253,000	–
Severance payments		95,233	–
Recruitment costs		50,814	–
Impairment of available-for-sale investments		93,567	–
AIM admission expenses		–	225,950
Fund closure expenses		–	160,000
		625,318	903,866

During 2007 the Group incurred costs of £106,829 and £33,761 relating to severance payments and recruitment costs respectively.

6. INVESTMENT REVENUE AND FINANCE COSTS

Investment revenues comprise:

	2008 £	2007 £
Interest receivable in respect of client bank accounts	332,858	132,319
Interest receivable in respect of Group company bank accounts	52,777	55,632
Other interest receivable	30,788	7,298
	416,423	195,249

Finance costs comprise:

	2008 £	2007 £
Interest payable to clients	120,067	60,705
Interest on bank overdrafts	3	20,862
Other interest	310	1,623
	120,380	83,190

7. (LOSS) / PROFIT ON DISPOSAL OF AVAILABLE-FOR-SALE INVESTMENTS

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

	2008 £	2007 £
(Loss) / profit on disposal of listed investments	(3,333)	89,418
	(3,333)	89,418

The loss in 2008 arose from the disposal of ordinary shares in a listed company. The profit in 2007 represented the disposal of 3.2 million shares in Castor Investments plc at a profit of £79,502 and 450,793 shares in IPoint Media plc at a profit of £9,916.

MERCHANT SECURITIES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 March 2008

8. LOSS FOR THE YEAR

The loss for the year is stated after charging:

	2008	2007
	£	£
Auditors' remuneration – audit services	81,500	34,848
Auditors' remuneration – tax advice	9,185	12,530
Auditors' remuneration – Other	21,502	2,581
Operating leases – land and buildings	165,208	89,226
Operating leases – machinery	19,718	19,696
Depreciation of property, plant and equipment	89,164	41,673
Impairment of goodwill	–	422,041
Amortisation of intangible assets	60,000	–
Share-based payments	117,397	35,000

9. STAFF COSTS

Directors' remuneration

	2008	2007
	£	£
Aggregate emoluments (excluding pension contributions)	599,844	820,994
Highest paid director (included within the above)	191,600	236,245

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 1 (2007: 1). During the year £12,894 (2007 £17,965) was paid into such schemes by the Group in respect of the director.

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

Compensation

	2008	2007
	£	£
Short-term benefits (health care, dental care and subsidised gym membership)	6,877	18,263
Long-term benefits (life assurance, critical illness cover and income protection)	–	10,499
Share based payments	13,932	10,095
	20,809	38,857

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)

	2008	2007
	£	£
Wages and salaries (including commission and bonuses)	2,531,385	2,093,789
Social security costs	359,742	250,054
Termination payments – directors	70,100	75,587
Termination payments – other	20,000	30,000
	2,981,227	2,449,430

MERCHANT SECURITIES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 March 2008

Staff numbers

	2008 Number	2007 Number
Executive directors	5	5
Others	33	17
The average number of employees (including directors) during the year was:	<u>38</u>	<u>22</u>

Pension contributions

During the year an expense of £57,432 (2007 £17,965) 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 of ordinary activities and comprises:

	2008 £	2007 £
Current UK corporation tax	(62,818)	88,656
UK Corporation tax adjustments in respect of prior periods	(2,670)	–
Deferred tax (see below)	22,652	(11,797)
	<u>(42,836)</u>	<u>76,859</u>

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

Corporation tax charge

	2008 £	2007 £
Based on taxable (loss) for the year:	<u>(778,483)</u>	<u>(438,009)</u>
UK corporation tax – current year at 30%	(233,545)	(131,403)
Effects of:		
Losses not utilised in year	39,851	–
Adjustments in respect of prior periods	(2,670)	–
Non-deductible expenses	118,394	255,941
Other adjustments	12,482	(35,882)
	<u>(65,488)</u>	<u>88,656</u>

MERCHANT SECURITIES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 March 2008

Deferred tax charge / (credit)	2008	2007
	£	£
Arising on revaluation of assets held for sale	–	(25,027)
Arising from difference in market value of share options between balance sheet date and exercise date	6,588	(6,588)
Utilisation of tax losses acquired on acquisition of MSGL	–	19,818
Deferred tax movements in respect of excess depreciation over capital allowances	16,064	–
	<u>22,652</u>	<u>(11,797)</u>

In addition to the above deferred tax balance credited to the Consolidated Income Statement, a deferred tax credit of £8,549 (2007: £17,672) emanating from the revaluation of available-for-sale shares, options and warrants has been credited directly to equity (see note 21).

11. EARNINGS PER SHARE

Basic earnings per share are based on the post-tax loss for the year of £735,647 (2007: loss of £514,868) and on 24,757,165 ordinary 10p shares (2007: 15,932,619) 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 24. Calculations are as follows:

Earnings for the purpose of basic and diluted earnings per share

	2008	2007
	£	£
Net loss attributable to equity holders of MSPLC	(735,647)	(514,868)
Amortisation of intangible assets /		
Impairment of goodwill	60,000	422,041
Revaluation of investments held-for-sale	72,704	95,875
Impairment of available-for-sale investments	93,567	–
Non-recurring costs	399,047	385,950
Expenses added back	<u>625,318</u>	<u>903,866</u>
	(110,329)	388,998
Notional tax relief of 26.6% in respect of fund closure expenses	–	42,560
Notional net (loss) / profit after adding back above expenses	<u>(110,329)</u>	<u>431,558</u>

Number of shares

Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u>24,757,165</u>	<u>15,932,619</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>29,230,411</u>	<u>18,056,542</u>

Earnings per share (EPS)

Basic and diluted EPS based on profit/(loss) attributable to equity holders	(2.97p)	(3.23p)
Basic EPS after adding back above expenses	(0.45p)	2.71p
Diluted EPS after adding back above expenses	<u>(0.45p)</u>	<u>2.39p</u>

MERCHANT SECURITIES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 March 2008

12. GOODWILL

Cost	£
At 1 April 2006	–
Recognised on acquisition of MSGL in May 2006	2,708,015
Recognised on reverse acquisition of MSPLC in October 2006	422,041
At 31 March 2007	<u>3,130,056</u>
At 1 April 2007	3,130,056
Recognised on acquisition of JEP in October 2007	2,419,845
At 31 March 2008	<u>5,549,901</u>
Impairment	
At 1 April 2006	–
Charge for the year in 2007 (2008: Nil)	422,041
At 31 March 2007 and 31 March 2008	<u>422,041</u>
Net book value	
At 31 March 2008	<u>5,127,860</u>
At 31 March 2007	<u>2,708,015</u>
At 31 March 2006	<u>–</u>

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.

Please see Note 25 for details of the acquisitions which have given rise to the goodwill shown above.

13. INTANGIBLE ASSETS

Cost	£
At 1 April 2006 and 1 April 2007	–
Recognised on acquisition of JEP in October 2007	1,389,000
At 31 March 2008	<u>1,389,000</u>
Amortisation	
At 1 April 2006 and 1 April 2007	–
Charge for the year	60,000
At 31 March 2008	<u>60,000</u>
Net book value	
At 31 March 2008	<u>1,329,000</u>
At 31 March 2006 and 31 March 2007	<u>–</u>

MERCHANT SECURITIES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 March 2008

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

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold property improvements £	Computer hardware & software £	Furniture & fittings £	Office equipment £	Telephone equipment £	TOTAL £
Cost						
At 1 April 2006	–	6,134	–	–	–	6,134
Acquisition of subsidiary	6,679	208,180	50,928	21,168	30,683	317,638
Additions	7,808	23,119	1,702	1,092	9,156	42,877
Disposals	(7,822)	(45,758)	(18,954)	(14,645)	–	(87,179)
At 31 March 2007	6,665	191,675	33,676	7,615	39,839	279,470
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)
At 31 March 2008	101,157	372,844	89,613	109,758	53,879	727,251
Depreciation						
At 1 April 2006	–	1,679	–	–	–	1,679
Acquisition of subsidiary	3,714	146,560	38,582	20,792	25,524	235,172
Charge for the year	(232)	35,721	2,335	473	3,376	41,673
Disposals	(3,164)	(41,377)	(16,357)	(14,645)	–	(75,543)
At 31 March 2007	318	142,583	24,560	6,620	28,900	202,981
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)
At 31 March 2008	19,371	227,372	38,071	22,883	33,792	341,489
Net book value						
At 31 March 2008	81,786	145,472	51,542	86,875	20,087	385,762
At 31 March 2007	6,347	49,092	9,116	995	10,939	76,489
At 31 March 2006	–	4,455	–	–	–	4,455

MERCHANT SECURITIES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 March 2008

15. INVESTMENTS

Non-current investments	2008	2007
	£	£
Investments available for sale at start of year at cost	133,667	184,500
IFRS revaluation adjustment brought forward	(58,907)	158,120
Investments available for sale at start of year at fair value	74,760	342,620
Disposal of investments	–	(342,620)
Investments acquired at fair value on acquisition of subsidiary	–	133,667
Revaluation at year end	(25,191)	(58,907)
At 31 March 2008	49,569	74,760

The Group holds a number of warrants and options over shares in various companies, some unlisted, and others listed on AIM. The reduction of £25,191 in the fair value of these options during the year has been posted to the revaluation reserve, as it is felt that the fall in market value is temporary. 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	2008	2007
	£	£
Investments held for sale at start of year at fair value	390,000	–
Disposal of investments	(13,333)	–
Investments acquired at fair value on acquisition of subsidiary	42,673	485,875
Revaluation of investments at year end	(72,704)	(95,875)
Fair value of investments held for sale at end of year	346,636	390,000

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

16. GROUP COMPANIES

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

17. TRADE AND OTHER RECEIVABLES

Amounts falling due within one year	2008	2007
	£	£
Receivable from clients	1,806,819	1,987,195
Less provision for impairment of receivables from clients	(20,000)	(6,638)
Receivable from counterparties	521,951	604,851
Less provision for impairment of receivables from counterparties	(121,872)	–
Other receivables	24,058	180,228
Prepayments and accrued income	874,699	257,313
	3,085,655	3,022,949

MERCHANT SECURITIES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 March 2008

Amounts falling due after more than one year

	2008	2007
	£	£
Other receivables	150,000	—
	<u>150,000</u>	<u>—</u>

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

18. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash at bank only. MSGL holds 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, belong to MSGL's clients, the balances have been excluded from the Consolidated Balance Sheet.

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

	Currency balance	Exchange rate	2008 £	2007 £
Sterling	4,934,857	—	4,934,857	1,671,884
US dollars	696,320	1.9875	350,350	525,496
Euros	141,519	1.2543	112,827	90,429
Swiss francs	12,160	1.9658	6,186	5,078
Canadian Dollars	25,311	2.0393	12,412	22,513
			<u>5,416,632</u>	<u>2,315,400</u>

19. 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 credit risk, liquidity risk and operational risk. Several high-level procedures are already in place to enable all risks to be better 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. A Risk Committee has recently been established to better identify, monitor and mitigate the principal risks facing the Group, and this is referred to more fully in the Report of the Directors.

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. Counterparties are all regulated entities in major financial markets. Exposure is spread over a large number of clients and counterparties. 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 appropriate rating agencies.

The Group currently derives most of its income from activities for which clients pay in advance. Debts in respect of other business activities are closely monitored by the finance department. The Group aims to fund its expansion plans mainly from existing cash balances without making use of bank loans or overdraft facilities. Other risks, including operational, reputational and legal 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 directors do not consider that the Group is materially exposed to foreign exchange risk or interest rate risk.

The fixed and floating charge over the assets of MSGL which was held by The Bank of Scotland arising from the company's lease of the previous office at 34 Southwark Bridge Road, London was discharged during the year.

MERCHANT SECURITIES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 March 2008

20. TRADE AND OTHER PAYABLES

	2008 £	2007 £
Amounts owed to clients and other counterparties	2,142,289	2,315,545
Other taxes and social security	210,385	65,407
Accruals and deferred income	880,085	518,317
Other payables	134,714	100,259
	<u>3,367,473</u>	<u>2,999,528</u>

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.

21. DEFERRED TAX ASSETS AND LIABILITIES

	Share based payments £	Total £
Deferred tax assets		
At 1 April 2006	–	–
Deferred tax assets arising from share options issued during the year	35,654	35,654
At 31 March 2007	35,654	35,654
Deferred tax assets relating to share options issued, reversing during the year	(35,654)	(35,654)
At 31 March 2008	<u>–</u>	<u>–</u>

Following the valuation of the share options, and after taking independent advice, the directors believe that the expenses giving rise to the deferred tax asset in prior years should be reversed.

A deferred tax asset of £5,159 has not been recognised in the accounts because the directors are not certain that the excess will be reversed in the foreseeable future and the potential asset is deemed to be immaterial. The asset arises from the excess of depreciation of property, plant and equipment over capital allowances claimed thereon.

Deferred tax liabilities

	Revaluation of financial assets £	Excess of book values over capital allowances £	Other timing differences £	Total £
1 April 2006	47,436	–	–	47,436
Acquisition of subsidiaries – options and warrants	40,100	–	–	40,100
Acquisition of subsidiaries – investments held for sale	25,027	–	–	25,027
Disposal of available for sale investments	(47,436)	–	–	(47,436)
Revaluation of available for sale options and warrants	(17,672)	–	–	(17,672)
Revaluation of available for sale investments	(25,027)	–	–	(25,027)
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
31 March 2008	<u>13,879</u>	<u>16,700</u>	<u>4,000</u>	<u>34,579</u>

MERCHANT SECURITIES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 March 2008

22. CALLED UP SHARE CAPITAL

	2008 £	2007 £
Authorised		
50,000,000 10p Ordinary shares (2007 – 30,000,000)	5,000,000	3,000,000
	<u>5,000,000</u>	<u>3,000,000</u>
Called up, allotted and fully paid		
19,420,000 10p Ordinary shares	1,942,000	1,942,000
Issued during the year	1,172,727	–
	<u>3,114,727</u>	<u>1,942,000</u>

The authorised share capital of MSPLC at 1 April 2007 was 30,000,000 shares of 10 pence each (£3,000,000), of which 19,420,000 (£1,942,000) were in issue. On 28 March 2008, the Company increased its authorised share capital to £5,000,000 by the creation of 20,000,000 ordinary shares of 10 pence each.

On 31 October 2007, the Company issued 11,727,270 ordinary shares of 10 pence each as part of the consideration payable on the acquisition of JEP and a related share placing to fund the cash element of the transaction at 35 pence per share.

23. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS FUNDS

	2008 £	2007 £
At beginning of the year	5,285,942	473,663
New shares issued	1,172,727	1,851,999
Movement in share premium account	2,931,818	7,408,351
Other reserves arising on reverse acquisition	–	(3,845,350)
Loss for the year	(735,647)	(514,868)
Revaluation reserve movements	76,925	(151,919)
Share-based payment reserve movements	88,331	64,066
At 31 March 2008	<u>8,820,096</u>	<u>5,285,942</u>

MERCHANT SECURITIES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 March 2008

24. 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 £117,000 (£35,000) related to equity-settled share based payment transactions. The corresponding equity credit has been allocated to the share-based payment reserve. In addition, a deferred tax charge of £6,588 (2007: deferred tax credit £6,588) has been recognised as deferred tax expenditure in the Consolidated Income Statement.

At 31 March 2008 the following options have been granted and remain outstanding in respect of ordinary shares of 10p in the Company under the Company’s EMI scheme.

Dates of grant	24 August 2007 – 25 March 2008	30 June 2006 – 30 October 2006
Exercisable two years following date of grant	24 August 2009 – 24 March 2018	30 June 2008 – 29 October 2016
Number of shares	2,142,719	2,246,160
Exercise price per share	25.00p-36.50p	29.94p
Expected fair value per share	7.51p-8.41p	0.5p-23.56p

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

Share price at date of grant	27.39p-36.50p	14.97p-50.00p
Expected life	2.5 years	2.18 – 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.

EMI Share option scheme	2008		2007	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
1 April	2,246,160	29.94p	–	–
Granted	2,142,719	32.79p	2,246,160	29.94p
Exercised	–	–	–	–
Forfeited	(285,406)	31.89p	–	–
31 March	<u>4,103,473</u>	<u>31.33p</u>	<u>2,246,160</u>	<u>29.94p</u>
Exercisable	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

At 31 March 2008 the following options have been granted and remain outstanding in respect of ordinary shares of 10p 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	688,276	668,063
Exercise price per share	35.00p-36.50p	29.94p
Expected fair value per share	7.51p-8.41p	0.5p

MERCHANT SECURITIES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 March 2008

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

Share price at date of grant	27.39p-36.50p	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	2008		2007	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
1 April	668,063	29.94p	–	–
Granted	688,276	36.13p	668,063	29.94p
Exercised	–	–	–	–
Forfeited	–	–	–	–
31 March	1,356,339	33.08p	668,063	29.94p
Exercisable	–	–	–	–

25. ACQUISITION

October 2007

On 8 October 2007, MSPLC acquired the entire issued share capital of EWH, the holding company of JEP, for a cash and shares consideration of £5,364,080. The transaction has been accounted for by the acquisition method of accounting.

	Book value	Adjustment	Fair value
	£	£	£
Net assets acquired			
Property, plant and equipment	264,605	–	264,605
Trade and other receivables	153,594	–	153,594
Trading investments	42,673	–	42,673
Cash and cash equivalents	1,700,000	–	1,700,000
Trade and other payables	(494,689)	–	(494,689)
Taxation liability	(91,748)	–	(91,748)
Deferred tax liability	(19,200)	–	(19,200)
Goodwill	–	2,419,845	2,419,845
Trademarks	–	523,000	523,000
Customer relationships	–	828,000	828,000
Non-compete agreement	–	38,000	38,000
	1,555,235	3,808,845	5,364,080
Consideration paid:			
– cash			2,670,182
– shares issued (7,428,570 ordinary shares of 10 pence)			2,600,000
Costs of acquisition			93,898
			5,364,080

MERCHANT SECURITIES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 March 2008

Net cash outflow arising on acquisition:	£
Cash consideration paid	(2,670,182)
Costs of acquisition	(93,398)
Cash and cash equivalents acquired	1,700,000
	<u>(1,064,080)</u>

In assessing the value of the net assets acquired, the directors considered whether there were any separately identifiable intangible assets. The separately identifiable intangible assets have been independently valued at their fair values as follows:

	£
Trademarks	523,000
Customer relationships	828,000
Non-compete agreement	38,000
	<u>1,389,000</u>

John East & Partners Limited contributed £1,169,000 to revenue and £59,000 to the Group's profit before tax for the period between the date of acquisition and the balance sheet date.

26. CASH GENERATED FROM OPERATIONS

	Year ended 31 March 2008 £	Year ended 31 March 2007 £
Operating loss for the year	(1,071,193)	(627,753)
Adjustments for:		
Depreciation	89,623	41,673
Impairment of goodwill	–	422,041
Amortisation of intangible assets	60,000	–
Revaluation of investments held for sale	72,704	95,875
Impairment of available for sale investments	93,567	–
Share based payment expense	117,397	35,000
Loss on sale of investments	3,333	–
Changes in working capital:		
Increase in debtors	(59,112)	(461,303)
(Decrease) / increase in creditors	(132,703)	1,598,011
Net cash (outflow) / inflow from operating activities	<u>(826,384)</u>	<u>1,103,544</u>

MERCHANT SECURITIES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 March 2008

27. FINANCIAL COMMITMENTS

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

	Land and buildings		Other	
	2008	2007	2008	2007
	£	£	£	£
Leases expiring:				
Within one year	221,388	127,238	27,691	19,718
Between one and five years	626,013	508,950	105,202	56,674
Over five years	63,619	190,856	–	980
	911,020	827,044	132,893	77,372

28. RELATED PARTIES

One of the Company's bankers, Ruffler Bank plc ("Ruffler"), own 1,220,591 (3.92%) of the parent company's issued ordinary shares. Charles Price is a director of Ruffler. Anthony Fabrizi was also a director of Ruffler until 30 August 2007. During the year, the Group invoiced £7,500 (2007: £13,000) net of VAT to Ruffler in respect of corporate finance advice.

Anthony Fabrizi is a director of and shareholder in Smart Voucher Limited, a company in which the Company had options over shares (valued at £Nil by the directors at 31 March 2007 and 31 March 2008). During 2008 the company invoiced £28,500 net of VAT to Smart Voucher Limited in respect of corporate finance advice (2007 – £11,000). At the year end there were no outstanding balances (2007: £Nil).

The Group paid £Nil to Caplay plc in respect of rent during the year ended 31 March 2008 (2007: £881). Messrs. Fabrizi and Claridge are both directors of Caplay plc.

Anthony Fabrizi is a director of and shareholder in Virtue Fusion Limited, a company which was invoiced £9,400 net of VAT by the Group during the year (2007: £41,000). The balance owed by Virtue Fusion Limited at the year end was £Nil (2007: £1,175).

Anthony Fabrizi is a director of and shareholder in Sabas Limited. During the year, the Group invoiced £50,000 net of VAT to Sabas Limited in respect of corporate finance advice (2007: £Nil). At the year end there was an amount of £25,000 outstanding (2007: £Nil).

29. POST BALANCE SHEET EVENTS

Since the year end the Group has announced a capital reorganisation and raised an additional £1.58 million via a placing of ordinary shares at a price of 10 pence per share on 22 July 2008. Following this placing 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	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%

MERCHANT SECURITIES PLC

COMPANY BALANCE SHEET

as at 31 March 2008

	Notes	£	2008 £	2007 (as restated) £	£
Fixed assets					
Investments	31		13,616,496		8,135,019
			13,616,496		8,135,019
Current assets					
Debtors	32	18,711		80,825	
Investments	31	313,889		390,000	
Cash at bank and in hand		–		324,490	
			332,600		795,315
Creditors: amounts falling due within one year	33		(594,485)		(140,899)
Net current assets			(261,885)		654,416
Net assets			13,354,611		8,789,435
Capital and reserves					
Called up share capital	34		3,114,727		1,942,000
Share premium account	36		10,340,169		7,408,351
Other reserves	37		152,397		35,000
Profit and loss account	37		(252,682)		(595,916)
Equity shareholders funds	35		13,354,611		8,789,435

The notes on pages 38 to 44 form an integral part of these financial statements.

These financial statements were approved by the board of directors and authorised for issue on 21 August 2008.

Signed on behalf of the board of directors

P T Claridge

Director

21 August 2008

MERCHANT SECURITIES PLC

COMPANY CASH FLOW STATEMENT for the year ended 31 March 2008

	Notes	2008 £	2007 £
Net cash inflow / (outflow) from operating activities	38	492,385	(218,445)
Returns on investment and servicing of finance			
Interest received		14,350	14,500
Income from investments in subsidiary companies		430,000	—
Net cash inflow from returns on investment and servicing of finance		444,350	14,500
Taxation		(11,690)	—
Capital expenditure and financial investment			
Proceeds from disposal of listed investments	31	10,000	448,499
Net cash inflow from capital expenditure and financial investment		10,000	448,499
Acquisitions and disposals			
Purchase of investments in subsidiaries	31	(2,670,182)	—
Cost of acquisition	31	(93,898)	(172,061)
Net cash outflow from acquisitions and disposals		(2,764,080)	(172,061)
Financing			
Proceeds from the issue of ordinary share capital	34	1,504,545	—
Net cash inflow from financing		1,504,545	—
Net (decrease) / increase in cash in the year	39	(324,490)	72,493

The notes on pages 38 to 44 form an integral part of these financial statements.

MERCHANT SECURITIES PLC

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY for the year ended 31 March 2008

30. 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.

b. 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.

c. 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.

d. 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.

e. Share based payment

The Company operates an equity-settled, share-based compensation plan on behalf of the employees of its subsidiary companies. The Company has applied the requirements of FRS 20 under which an investment is recorded in the Balance Sheet based on the fair value of the grant of options to subsidiary employees, as measured at the grant date. The share based payment addition to investments is applied on a straight line basis over the expected vesting period, based on the estimate of shares that will eventually vest, 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-Merton 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.

MERCHANT SECURITIES PLC

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY for the year ended 31 March 2008

31. INVESTMENTS

	2008 £	2007 (as restated) £
Fixed asset investments		
Net book value at 1 April	8,135,019	–
Additions at fair value	5,481,477	8,557,061
Diminution in value of investment	–	(422,042)
Net book value at 31 March	<u>13,616,496</u>	<u>8,135,019</u>

The cash component of the acquisition in the year amounted to £2,670,182 and acquisition expenses totalled £93,898.

UITF Abstract 44 'Group and Treasury Share Transactions' becomes effective for this period and provides clarification over the treatment of share options in parent entities issued to employees of subsidiary companies. The effect of this standard is that the corresponding debit to share based payment reserve must now be recorded in investments in subsidiaries rather than as amounts owed by the subsidiary companies, which was the previous treatment. This is a change in accounting policy and has resulted in a prior year adjustment. The prior year balance with the subsidiary company has been restated and reflected as an increase in investment of the subsidiary company to fall in line with the new policy. The effect on the prior year figures is to increase the investment by £35,000.

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

	Country of incorporation	Principal activity	Class and percentage of shares held
Merchant Securities Group Limited	England & Wales	Institutional and Private Client Stockbroking	100%
John East & Partners Limited *	England & Wales	Corporate Finance advice, raising capital and listing companies	100%

Dormant subsidiaries are not stated above but the full list of subsidiaries will be annexed to the company's next annual return.

*Shareholding held indirectly.

	2008 £	2007 £
Current asset investments		
Net book value at 1 April	390,000	750,000
Additions at cost	–	–
Disposals at cost	(13,333)	(360,000)
Provision for diminution in value	(62,778)	–
Net book value at 31 March	<u>313,889</u>	<u>390,000</u>

MERCHANT SECURITIES PLC

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY for the year ended 31 March 2008

Current asset investments are valued at historical cost less provision for diminution in value of investments.

This investment comprises 627,778 ordinary shares representing approximately 2.8% of the ordinary equity share capital of Phynova Group plc. Phynova Group plc is listed on the AIM market in London. The investment has been valued at cost less any provision for diminution in value.

During the year, the Company disposed of 22,222 shares it held in Phynova Group plc for a total consideration of £10,000.

The directors do not consider the market value of the investment at 31 March 2008 to be materially different to the net book value shown above.

32. DEBTORS

	2008	2007 (as restated)
	£	£
Owed by subsidiary undertakings – MSGL	–	76,806
Prepayments	2,750	3,046
Corporation tax	15,560	–
Other debtors	401	973
	<u>18,711</u>	<u>80,825</u>

UITF Abstract 44 'Group and Treasury Share Transactions' becomes effective for this period and provides clarification over the treatment of share options in parent entities issued to employees of subsidiary companies. The effect of this standard is that the corresponding debit to share based payment reserve must now be recorded in investments in subsidiaries rather than as amounts owed by the subsidiary companies, which was the previous treatment. This is a change in accounting policy and has resulted in a prior year adjustment. The prior year balance with the subsidiary company has been restated and reflected as an increase in investment of the subsidiary company to fall in line with the new policy. The effect on the prior year figures is to reduce the amount owed by subsidiary undertakings by £35,000.

33. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2008	2007
	£	£
Trade creditors	2,946	2,136
Amounts owed to subsidiary undertakings	564,778	114,087
Accruals and deferred income	26,761	15,170
Corporation tax	–	9,506
	<u>594,485</u>	<u>140,899</u>

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

MERCHANT SECURITIES PLC

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY for the year ended 31 March 2008

34. CALLED UP SHARE CAPITAL

	2008		2007	
	No.	£	No.	£
<i>Authorised</i>				
Ordinary shares of £0.10 each	50,000,000	5,000,000	30,000,000	3,000,000
<i>Allotted, called up and fully paid</i>				
At 1 April	19,420,000	1,942,000	27,200,000	272,000
Share consolidation 1 for 10	–	–	(24,480,000)	–
Shares issued (ordinary shares of £0.10 each)	11,727,270	1,172,727	16,700,000	1,670,000
At 31 March	31,147,270	3,114,727	19,420,000	1,942,000

The authorised share capital of MSPLC at 1 April 2007 was 30,000,000 shares of 10 pence each (£3,000,000), of which 19,420,000 (£1,942,000) were in issue. On 28 March 2008, the Company increased its authorised share capital to £5,000,000 by the creation of 20,000,000 ordinary shares of 10 pence each.

On 31 October 2007, the Company issued 11,727,270 ordinary shares of 10 pence each as part of the consideration payable on the acquisition of JEP and a related share placing to fund the cash element of the transaction at 35 pence per share.

35. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS FUNDS

	2008	2007
	£	£
At beginning of the year	8,789,435	974,712
New shares issued	1,172,727	1,670,000
Movement in share premium account	2,931,818	6,705,000
Other reserves	117,397	10,000
Profit / (Loss) for the year	343,234	(570,277)
At 31 March	13,354,611	8,789,435

36. RECONCILIATION OF MOVEMENTS IN SHARE PREMIUM ACCOUNT

	2008	2007
	£	£
At beginning of the year	7,408,351	703,351
Issued in year	2,931,818	6,680,000
Share warrant reserve written back on lapse of share options	–	25,000
At 31 March	10,340,169	7,408,351

37. RECONCILIATION OF MOVEMENTS IN PROFIT AND LOSS AND OTHER RESERVES

	2008	2007
	£	£
At beginning of the year	(595,916)	(25,639)
Profit / (Loss) for year	343,234	(570,277)
Profit and loss account	(252,682)	(595,916)
Share based payment reserve	152,397	35,000
At 31 March	(100,285)	(560,916)

MERCHANT SECURITIES PLC

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY for the year ended 31 March 2008

38. NET CASH FLOW FROM OPERATING ACTIVITIES

	2008 £	2007 £
Net operating loss	(51,714)	(575,270)
Loss / (profit) on sale of investments	3,333	(88,499)
Diminution in value of investments	–	422,041
Decrease in debtors	77,674	38
Increase in creditors	463,092	23,245
Net cash inflow / (outflow) from operating activities	<u>492,385</u>	<u>(218,445)</u>

39. ANALYSIS OF CHANGES IN NET CASH

	1 April 2007 £	Cash flow £	Non-cash changes £	31 March 2008 £
Cash at bank and in hand	324,490	(324,490)	–	–
Net funds	<u>324,490</u>	<u>(324,490)</u>	<u>–</u>	<u>–</u>

40. FAIR VALUE DISCLOSURES

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

41. 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 £117,397 (£35,000) related to equity-settled share based payment transactions. The corresponding equity credit has been allocated to the share-based payment reserve. In addition, a deferred tax charge of £6,588 (2007: deferred tax credit £6,588) has been recognised as deferred tax expenditure in the Consolidated Income Statement.

At 31 March 2008 the following options have been granted and remain outstanding in respect of ordinary shares of 10p in the Company under the Company's EMI scheme.

Dates of grant	24 August 2007 – 25 March 2008	30 June 2006 – 30 October 2006
Exercisable two years following date of grant	24 August 2009 – 24 March 2018	30 June 2008 – 29 October 2016
Number of shares	2,142,719	2,246,160
Exercise price per share	25.00p-36.50p	29.94p
Expected fair value per share	7.51p-8.41p	0.5p-23.56p

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

Share price at date of grant	27.39p-36.50p	14.97p-50.00p
Expected life	2.5 years	2.18 – 2.5 years
Expected volatility	29.9%	29.9%
Risk free rate	4.08% - 4.57%	4.68%
Expected dividend yield	Nil	Nil

MERCHANT SECURITIES PLC

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY for the year ended 31 March 2008

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

EMI Share option scheme	2008		2007	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
1 April	2,246,160	29.94p	–	–
Granted	2,142,719	32.79p	2,246,160	29.94p
Exercised	–	–	–	–
Forfeited	(285,406)	31.89p	–	–
31 March	<u>4,103,473</u>	<u>31.33p</u>	<u>2,246,160</u>	<u>29.94p</u>
Exercisable	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

At 31 March 2008 the following options have been granted and remain outstanding in respect of ordinary shares of 10p 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	688,276	668,063
Exercise price per share	35.00p-36.50p	29.94p
Expected fair value per share	7.51p-8.41p	0.5p

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

Share price at date of grant	27.39p-36.50p	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	2008		2007	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
1 April	668,063	29.94p	–	–
Granted	688,276	36.13p	668,063	29.94p
Exercised	–	–	–	–
Forfeited	–	–	–	–
31 March	<u>1,356,339</u>	<u>33.08p</u>	<u>668,063</u>	<u>29.94p</u>
Exercisable	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

MERCHANT SECURITIES PLC

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY for the year ended 31 March 2008

42. RELATED PARTY TRANSACTIONS

One of the Company's bankers, Ruffler Bank plc ("Ruffler"), own 1,220,591 (3.92%) of the parent company's issued ordinary shares. Charles Price is a director of Ruffler. Anthony Fabrizi was also a director of Ruffler until 30 August 2007.

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.

43. POST BALANCE SHEET EVENTS

Since the year end the Group has announced a capital reorganisation and raised an additional £1.58 million via a placing of ordinary shares at a price of 10 pence per share on 22 July 2008. Following this placing the following persons held in excess of 3% of the ordinary share capital of the Company:

	Number of shares	Percentage held
Dom Maklerski IDM Spółka Akcyjna	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%

MERCHANT SECURITIES PLC

NOTICE OF ANNUAL GENERAL MEETING

(see notes on pages 48 for a brief explanation of each of the resolutions)

Notice is hereby given of the Company's third Annual General Meeting to be held at John Stow House, 18 Bevis Marks, London EC3A 7JB on 24th day of September 2008, at 10.00 am for the following purposes:

ORDINARY BUSINESS

To receive and, if thought fit, pass the following resolutions numbered 1-4 (inclusive) as ordinary resolutions:

1. To receive and adopt the Company's annual accounts for the year ended 31 March 2008, together with the Report of the Directors and the Independent Auditors' Report on those accounts.
2. To reappoint Mr Patrick Claridge, 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 East, 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 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 5 will be proposed as ordinary resolutions, and resolutions 6 and 7 will be proposed as special resolutions:

Ordinary resolution

5. 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 £261,324 provided that:
 - a) this authority shall expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, the date fifteen months from the passing of this resolution unless previously revoked or renewed by the Company in 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

6. That, subject to and conditional upon the passing of resolution 5 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 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

MERCHANT SECURITIES PLC

NOTICE OF ANNUAL GENERAL MEETING

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 (if earlier) fifteen months from the date of the passing of this resolution 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

7. 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 of 9,379,454 such shares (representing 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 fifteen months after the date on which this resolution is passed 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

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, PO Box 25, Beckenham Road, Beckenham, Kent BR3 4TU, by not later than 10.00 am 24 September 2008 (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.

MERCHANT SECURITIES PLC

NOTICE OF ANNUAL GENERAL MEETING

- (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 22 September 2008 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) In order to facilitate voting by corporate representatives at the AGM, arrangements will be put in place at the AGM so that (i) if a corporate shareholder has appointed the chairman of the meeting as its corporate representative to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of appointment letter if the chairman is being appointed as described in (i) above.

MERCHANT SECURITIES PLC

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 2008 to the meeting.

Resolutions 2 and 3 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 4 – 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 5 – authority to allot the relevant securities

The Company requires the flexibility to allot equity securities from time to time. Accordingly, resolution 5 seeks to grant (until the next Annual General Meeting or the expiration of 15 months if sooner) the directors authority to allot equity securities up to an aggregate nominal amount of £261,324 which represents approximately 55% of the Company's issued share capital at 21 August 2008. 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 6 – 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 5. The directors consider this power desirable due to the flexibility afforded by it.

Resolution 7 – 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 of 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.

Merchant Securities plc
John Stow House
18 Bevis Marks
London EC3A 7JB

TEL: 020 7375 9010
EMAIL: mail@merchantsecurities.co.uk

REGISTERED NO: 5347651
Fax : 020 7375 9011
www.merchantsecurities.co.uk