

## Regulatory Announcement

<b>Company</b>	Merchant Securities PLC
<b>TIDM</b>	MERC
<b>Headline</b>	Interim Results
<b>Released</b>	07:01 21-Dec-07

### **Merchant Securities plc (“Merchant Securities” or “the Company”) Interim Results for the six months ended 30<sup>th</sup> September 2007**

#### **INTERIM REPORT TO SHAREHOLDERS**

The board of Merchant Securities PLC is pleased to announce its financial results for the six months to 30 September 2007.

#### **HIGHLIGHTS**

- Turnover up 10% to £2.11m (2006: £1.92m)
- Gross profit up 7% to £1.90m (2006: £1.78m)
- Net profit before tax: £90,905 (2006: £302,740)
- Cash generated from operating activities of £179,010
- Net assets up by £41,294 since 31st March to £5,327,236
- Cash and cash equivalents up by £161,388 to £2,275,026
- Total funds under advisory management increased by 13% to £124 million
- New office opened in Manchester
- Launch of CFD business
- Senior appointments made across all areas of the business
- Significant development post period end with the acquisition of John East & Partners Limited group for £4.9m and an associated placing to raise £1.5m.

Commenting on the results for the six months Tony Fabrizi, Group Chief Executive, said, “The first half of the financial year has seen the business develop in accordance with our stated ambition of building a high quality broadly based financial services company. We have focused our attention on improving the quality of our services and have invested heavily both in terms of our systems and people. This investment is continuing and we anticipate completing significant systems changes across our business in the second half.”

“We have also expanded our areas of activity with the acquisition of the John East & Partners Limited group (“JEP”), which is already proving itself an excellent strategic fit. Since the acquisition in October, JEP has completed three transactions and is currently acting on a number of transactions which are anticipated to close in the first quarter of 2008.”

“We will continue to seek out opportunities to expand our business further and also intend to increase our range of services within the current operations.”

“We expect market conditions to remain volatile in the second half of our financial year, but, as long as these do not prevent us from completing what is a strong pipeline of business, we expect to produce a satisfactory profit outcome for the year.”

Enquiries:

Merchant Securities plc  
Anthony Fabrizi (Chief Executive) Tel: 020 7375 9060

Arden Partners plc  
Paul Davies Tel: 020 7398 1600

Broadgate  
Roland Cross/Emma Murphy Tel: 020 7726 6111

### About Merchant Securities plc

Merchant Securities plc provides a range of financial service products and advice to high net worth private clients, institutions and small businesses. The Company is now the ultimate parent undertaking of two trading subsidiary companies, both of which are authorised by the Financial Services Authority. Merchant Securities Group Limited provides a variety of services including asset and advisory management to high net worth private clients, sales trading to institutional investors, and private equity funding and corporate advice for small UK companies. John East & Partners Limited whose immediate parent was acquired by the Company on 9 October 2007 is a corporate member of the London Stock Exchange, an approved nominated adviser and broker and a registered sponsor, specialising in providing corporate finance advice services and raising capital for smaller companies.

### MERCHANT SECURITIES PLC

#### Interim unaudited accounts for the six months ended 30<sup>th</sup> September 2007

### CONSOLIDATED INCOME STATEMENT

	Six months to 30 <sup>th</sup> September 2007 Unaudited	Six months to 30 <sup>th</sup> September 2006 Unaudited (as restated)	Year ended 31 <sup>st</sup> March 2007 Audited
	£	£	£
Revenue	2,110,753	1,920,885	4,090,737
Cost of sales	<u>(213,239)</u>	<u>(139,037)</u>	<u>(352,740)</u>
<b>Gross Profit</b>	<b>1,897,514</b>	<b>1,781,848</b>	<b>3,737,997</b>
Other income	7,932	6,266	9,135
General administrative expenses	(1,900,456)	(1,513,693)	(3,471,019)
Impairment of goodwill	-	-	(422,041)
Revaluation of assets held for sale	(55,250)	-	(95,875)
Alternative Investment Market (AIM) admission expenses and other non-recurring items	-	-	(385,950)
<b>Operating profit/(loss)</b>	<b>(50,260)</b>	<b>274,421</b>	<b>(627,753)</b>
Investment revenues	188,287	81,079	195,249
Interest payable	(47,122)	(49,546)	(83,190)
Loss on disposal of fixed assets	-	(3,214)	(11,733)
Profit on disposal of available-for-sale investments	-	-	89,418
<b>Profit/(loss) before taxation</b>	<b>90,905</b>	<b>302,740</b>	<b>(438,009)</b>
Taxation	(37,723)	(97,120)	(76,859)
<b>Profit/(loss) attributable to equity holders</b>	<b>53,182</b>	<b>205,620</b>	<b>(514,868)</b>
<b>Earnings per share</b>			
Basic	<b>0.27p</b>	1.61p	(3.23p)
Diluted	<b>0.24p</b>	1.44p	(3.23p)

The profit / (loss) for the period attributable to equity holders of the Company is as follows:			
Profit before tax, goodwill impairment, revaluation of investments and non-recurring items	146,155	302,740	465,857
Impairment of goodwill	-	-	(422,041)
Revaluation of investments held for sale	(55,250)	-	(95,875)
AIM admission expenses and other non-recurring items	-	-	(385,950)
	<u>90,905</u>	<u>302,740</u>	<u>(438,009)</u>

Taxation	(37,723)	(97,120)	(76,859)
	<u>53,182</u>	<u>205,620</u>	<u>(514,868)</u>

### CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSES

Loss on revaluation of available-for-sale shares, options and warrants taken to equity	(64,760)	(20,556)	(58,907)
Deferred tax on losses on available-for-sale shares, options and warrants	19,428	(7,589)	17,672
<b>Net expenses recognised directly in equity</b>	<u>(45,332)</u>	<u>(28,145)</u>	<u>(41,235)</u>
Released from equity on disposal of assets	-	-	(110,684)
Gain/(loss) for the period	53,182	205,620	(514,868)
<b>Total recognised income and expenses in the period</b>	<u>7,850</u>	<u>177,475</u>	<u>(666,787)</u>

### BALANCE SHEET

	30 <sup>th</sup> September 2007 Unaudited	30 <sup>th</sup> September 2006 Unaudited (as restated)	31 <sup>st</sup> March 2007 Audited
	£	£	£
<b>Non-current assets</b>			
Goodwill	2,708,015	2,708,015	2,708,015
Property, plant and equipment	70,154	87,051	76,489
Available-for-sale investments	10,000	455,731	74,760
	<u>2,788,169</u>	<u>3,250,797</u>	<u>2,859,264</u>
<b>Current assets</b>			
Trade and other receivables	2,916,087	4,435,467	3,022,949
Trading investments	334,750	-	390,000
Cash and cash equivalents	2,275,026	1,776,682	2,113,638
Deferred tax asset	56,629	-	35,654
	<u>5,582,492</u>	<u>6,212,149</u>	<u>5,562,241</u>
<b>Total assets</b>	<u>8,370,661</u>	<u>9,462,946</u>	<u>8,421,505</u>
<b>Current liabilities</b>			
Trade and other payables	(2,897,767)	(4,565,827)	(2,999,528)
Current tax liabilities	(142,658)	(95,856)	(113,607)
	<u>(3,040,425)</u>	<u>(4,661,683)</u>	<u>(3,113,135)</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities	(3,000)	(95,125)	(22,428)
<b>Total liabilities</b>	<u>(3,043,425)</u>	<u>(4,756,808)</u>	<u>(3,135,563)</u>
<b>Total assets less liabilities</b>	<u>5,327,236</u>	<u>4,706,138</u>	<u>5,285,942</u>
<b>Equity</b>			
Share capital	1,942,000	454,561	1,942,000
Share premium account	7,408,351	3,690,440	7,408,351
Other reserves	(3,845,350)	-	(3,845,350)
Retained earnings	(188,708)	478,598	(241,890)
Revaluation reserve/(deficit)	(86,567)	82,539	(41,235)
Share-based payment reserve	97,510	-	64,066
<b>Equity attributable to equity holders</b>	<u>5,327,236</u>	<u>4,706,138</u>	<u>5,285,942</u>

### CASH FLOW STATEMENT

	Six months to 30 <sup>th</sup> September 2007 Unaudited	Six months to 30 <sup>th</sup> September 2006 Unaudited (as restated)	Year ended 31 <sup>st</sup> March 2007 Audited
	£	£	£
<b>Cash flow from operating activities</b>			
Cash generated from operations	67,492	1,144,113	1,103,544
Interest received	188,287	81,079	195,249
Interest paid	(47,122)	(49,546)	(83,190)

Tax paid	<u>(29,647)</u>	<u>(9,992)</u>	<u>(9,993)</u>
Net cash generated from / (used in) operating activities	<u>179,010</u>	<u>1,165,654</u>	<u>(1,205,610)</u>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiary business	-	(3,534,858)	(3,534,858)
Reverse acquisition of MSPLC	-	-	43,486
Purchase of property, plant and equipment	(17,622)	(22,471)	(42,877)
Cost of disposal of tangible fixed assets	-	(98)	(96)
Proceeds from disposal of available-for-sale investments	-	-	273,918
Net cash generated from investing activities	<u>(17,622)</u>	<u>(3,557,427)</u>	<u>(3,260,427)</u>
<b>Cash flows from financing activities</b>			
Proceeds from sale of shares	-	4,055,000	4,055,000
Net cash generated from financing activities	<u>-</u>	<u>4,055,000</u>	<u>4,055,000</u>
<b>Net increase in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of period	161,388	1,663,227	2,000,183
	<u>2,113,638</u>	<u>113,455</u>	<u>113,455</u>
<b>Cash and cash equivalents at end of period</b>	<u>2,275,026</u>	<u>1,776,682</u>	<u>2,113,638</u>

## NOTES

### Note 1 – Accounting policies

#### Basis of preparation

The consolidated interim financial information has been prepared in accordance with IAS 34 'Interim Financial Reporting'. These policies are in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union. Comparatives for the period to 30<sup>th</sup> September 2006 have been restated in accordance with IFRS. The Company's transition date to IFRS was 1<sup>st</sup> April 2006 being the first day of the comparative year to 31<sup>st</sup> March 2007, and accordingly the interim financial report and the comparative information have been prepared using accounting policies consistent with IFRS. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS along with the IFRS standards and interpretations that have not been adopted early by the group are presented in the Group's consolidated financial statements for the year ended 31<sup>st</sup> March 2007.

The interim financial statements have been prepared on the basis of the accounting policies as stated in the consolidated financial statements for the year ended 31<sup>st</sup> March 2007. The interim financial statements should be read in conjunction with those audited financial statements for the year ended 31<sup>st</sup> March 2007.

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

The statutory accounts for the year ended 31<sup>st</sup> March 2007, which were prepared under IFRS, have been delivered to the Registrar of Companies. The auditors of the Group, Horwath Clark Whitehill LLP, reported on those accounts: their report was unqualified and did not contain a statement under either Section 237 (2) or Section 237 (3) of the Companies Act 1985.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### Note 2 – Basis of consolidation

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

As stated in the audited financial statements for the year ended 31<sup>st</sup> March 2007, the Company purchased the entire share capital of Merchant Securities Holdings Limited ("MSHL") in October 2006 by issuing new shares to MSHL's shareholders. As a result, the former shareholders of MSHL became the majority shareholders of the Company, owning 86% of the newly increased share capital, and the executive managers of MSHL replaced the Company's previous management. In substance, therefore, MSHL acquired MSPLC by a reverse takeover. IFRS 3 prescribes the application of reverse acquisition accounting as the basis of consolidation. The restated comparative figures for the period ended 30<sup>th</sup> September 2006 are therefore those of MSHL.

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

### Note 3 – Revenue and gross profit by segment

The Group's results for the period ended 30<sup>th</sup> September 2007, all of which were generated within the United Kingdom, can be analysed by product as follows:

	Six months to 30 <sup>th</sup> September 2007 Unaudited	Six months to 30 <sup>th</sup> September 2006 Unaudited (as restated)	Year ended 31 <sup>st</sup> March 2007 Audited
	£	£	£
<b>Revenue</b>			
Private client and institutional broking	1,504,758	1,018,625	2,577,231
Corporate finance and private equity	585,995	902,260	1,513,506
Unallocated	20,000	-	-
	<u>2,110,753</u>	<u>1,920,885</u>	<u>4,090,737</u>
<b>Cost of sales</b>			
Private client and institutional broking	(152,910)	(139,037)	(352,740)
Corporate finance and private equity	(34,350)	-	-
Unallocated	(25,979)	-	-
	<u>(213,239)</u>	<u>(139,037)</u>	<u>(352,740)</u>
<b>Gross Profit</b>	<u>1,897,514</u>	<u>1,781,848</u>	<u>3,737,997</u>

### Note 4 – Taxation

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

	Six months to 30 <sup>th</sup> September 2007 Unaudited	Six months to 30 <sup>th</sup> September 2006 Unaudited (as restated)	Year ended 31 <sup>st</sup> March 2007 Audited
	£	£	£
Current tax	58,698	77,302	88,656
Deferred tax	(20,975)	19,818	(11,797)
	<u>37,723</u>	<u>97,120</u>	<u>76,859</u>

### Note 5 - Earnings per share

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

	Six months to 30 <sup>th</sup> September 2007 Unaudited	Six months to 30 <sup>th</sup> September 2006 Unaudited (as restated)	Year ended 31 <sup>st</sup> March 2007 Audited
	£	£	£
<b>Basic EPS</b>			
Profit/(loss) for the period	53,182	205,620	(514,868)
Weighted average number of shares in issue	19,420,000	12,747,827	15,932,619
<b>Diluted EPS</b>			

Profit/(loss) for the period	53,182	205,620	(514,868)
Weighted average number of shares in issue	22,583,165	14,278,255	15,932,619

#### Note 6 - Dividend

The directors do not propose payment of an interim dividend.

#### Note 7 – Acquisition of East Worlidge Holdings Limited

On 9<sup>th</sup> October 2007, Merchant Securities acquired the entire issued ordinary share capital of East, Worlidge Holdings Limited (“EWH”) for a consideration of £4.9 million, of which £2.3 million was settled in cash and the remaining £2.6 million was settled by the issue of 7,428,571 new ordinary shares of 10p in the capital of the Company. The acquisition agreement stated that the cash consideration would be adjusted to the extent that EWH’s final agreed net current assets exceeded, or fell short of £900,000. EWH is the holding company for John East & Partners Limited (“JEP”). The company is in the process of determining the fair value of net assets acquired. JEP is a member firm of the London Stock Exchange, specialising in providing corporate finance advice and raising capital for smaller public companies and companies seeking a public listing. It is intended that JEP will continue as a separate commercial entity operating in an ordinary course of business.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### Note 8 – Reconciliation of changes in equity

	Called up share capital	Revaluation reserve	Share premium	Share based payment reserve	Other reserves	Retained earnings	Total equity
	£	£	£	£	£	£	£
Equity as at 1 <sup>st</sup> April 2006	90,001	110,684				272,978	473,663
Revaluation of investments available for sale at fair value		(20,556)					(20,556)
Deferred tax charge		(7,589)					(7,589)
Profit for the 6 months ended 30 <sup>th</sup> September 2006						205,620	205,620
<b>Total recognised income and expenses for the period</b>		<b>(28,145)</b>				<b>205,620</b>	<b>177,475</b>
Issue of shares – reorganisation MSHL	364,560		3,690,440				4,055,000
<b>Equity as at 30<sup>th</sup> September 2006</b>	<b>454,561</b>	<b>82,539</b>	<b>3,690,440</b>			<b>478,598</b>	<b>4,706,138</b>
Revaluation of investment at fair value		(162,323)					(162,323)
Deferred tax credit		48,697					48,697
Transfer of realised gain		(10,148)					(10,148)
Loss for the 6 months ended 31 <sup>st</sup> March 2007						(720,488)	(720,488)
<b>Total recognised income and expenses for the period</b>		<b>(123,774)</b>				<b>(720,488)</b>	<b>(844,262)</b>
Share based payments				35,000			35,000
Deferred tax arising on tax treatment of share based expenses				29,066			29,066
Consolidated Adjustments	1,487,439		3,717,911	-	(3,845,350)		1,360,000
<b>Equity as at 31<sup>st</sup> March 2007</b>	<b>1,942,000</b>	<b>(41,235)</b>	<b>7,408,351</b>	<b>64,066</b>	<b>(3,845,350)</b>	<b>(241,890)</b>	<b>5,285,942</b>
Revaluation of investment at fair value		(64,760)					(64,760)
Deferred tax credit		19,428					19,428
Profit for the 6 months ended 30 <sup>th</sup> September 2007						53,182	53,182
<b>Total recognised income and expenses for the period</b>		<b>(45,332)</b>				<b>53,182</b>	<b>7,850</b>
Share based payments				33,444			33,444

<b>Equity as at 30<sup>th</sup> September 2007</b>	<b>1,942,000</b>	<b>(86,567)</b>	<b>7,408,351</b>	<b>97,510</b>	<b>(3,845,350)</b>	<b>(188,708)</b>	<b>5,327,236</b>
--	------------------	-----------------	------------------	---------------	--------------------	------------------	------------------

**Note 9 – Related party transactions**

One of the Company's bankers, Ruffler Bank plc ("Ruffler"), owns 1,220,591 (6.29%) of the Company's issued ordinary shares. Charles Price, a director of the Company, is also a director of Ruffler. Anthony Fabrizi resigned as a director of Ruffler on the 30<sup>th</sup> August 2007.

The Company has taken advantage of the exemption provided by FRS 8 from disclosing transactions between group companies, as consolidated financial statements are publicly available.

END