Annual Report 2007

MERCHANT SECURITIES

MERCHANT SECURITIES PLC

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MERCHANT SECURITIES PLC

COMPANY INFORMATION
FOR THE YEAR ENDED 31 MARCH 2007

Directors:	Mr P T Claridge (appointed on 25 October 2006)	Chief Operating Officer
	Mr F A B Fabrizi (appointed on 25 October 2006)	Chief Executive Officer
	Mr J L Green (appointed on 25 October 2006)	Chairman
	Mr C B Price (appointed on 25 October 2006)	Non-Executive Director
	Mr S J Whelton (appointed on 25 October 2006)	Finance Director
	Mr D Barton (resigned on 25 October 2006)	
	Mr A D Pereira (resigned on 25 October 2006)	

Company Secretary: Ms 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 Advisor:
Arden Partners
Nicholas House
3 Laurence Pountney Hill
London
EC4R 0EU

Registrar:
Capita IRG plc
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

MERCHANT SECURITIES PLC

CHAIRMAN'S STATEMENT

Introduction
I am pleased to present our first set of accounts since the new group was formed in May 2006 and our listing on AIM in October 2006.

The period since the new group was formed has seen significant work in integrating the respective businesses, establishing appropriate compliance and financial controls and developing a platform for future growth.

Significant hires have been made to address the opportunities identified, and a number of acquisition and development prospects which would assist in moving towards our objectives have been considered.

The underlying financial results reported here, though satisfactory in themselves, do not reflect the aspirations your Board has for Merchant Securities plc ("the Group"), and we hope that next year we will be able to report results which better reflect a fuller and more rounded business.

Operational and financial review
The last year was one of major corporate change for the Group. In May 2006, Ghaliston Limited acquired Merchant Securities Limited with the support of a number of institutional and private investors. The Group's business expanded significantly as a result of this acquisition with the introduction of an institutional trading department and a separate corporate finance division. Following the successful integration of these activities, the business listed on AIM in October by reversing into Castor Investments plc and moved to larger premises in the City in December.

The last year was also one of significant expansion and reorganisation within the business. The Group is now focused on four distinct areas; namely, private client stockbroking and wealth management, institutional broking, private equity and corporate finance.

Against this background of significant corporate change the Group achieved turnover of £4,090,737, which resulted in a pre-tax underlying operating profit of £465,857 (excluding £903,866 of non-recurring expenses, goodwill written down and impairment of investments held for sale). Taking these expenses into account, the Group made a loss before tax of £438,009, including a cost of £35,000 in respect of share based payments.

The Group's net assets at the year end were £5,285,942 of which cash totalled £2,113,638. Net cash generated from operations totalled £1,103,544.

The Board remains optimistic that following a year of significant reorganisation, the Group is well placed to develop each of its operating divisions.

Outlook
Having completed the first quarter of the financial year, I am pleased to report that Merchant Securities' financial results for that period are in line with management expectations. The directors are confident that the current year will see continuing development of the Company's business in its chosen markets. The Board will continue to review the potential acquisition of complementary businesses to augment the growth that it envisages.

Finally, I would like to welcome all new shareholders and to thank them for their support and also express my thanks to all members of staff who have contributed to the success of the Group.

John Green
Chairman

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 2007.

Principal activities

The principal activity of Castor Investments plc ("the Company") at the start of the year was to invest in companies and businesses engaged in health care sciences and services. However, following its admission to the Alternative Investment Market (AIM) in March 2005, the original directors were unable to identify sufficient suitable acquisitions within these sectors, and trading on AIM of the Company's existing ordinary shares was suspended on 3 April 2006. On 25 October 2006, the Company acquired the entire share capital of Merchant Securities Holdings Limited ("MSHL") for £8,350,000 by issuing 16,700,000 new ordinary shares (approximately 86% of its total ordinary shares) to shareholders of MSHL (previously Ghaliston Limited) at a price of 50p per share. The Company changed its name to Merchant Securities plc ("MSPLC") on the same day. The new ordinary shares of the Company were traded on AIM with effect from the following day. The acquisition constituted a reverse takeover of the Company by MSHL.

Prior to that, on 24 May 2006, Ghaliston Limited, which provided corporate finance advisory services, purchased the entire share capital of Merchant Securities Limited, a company whose principal activities were the provision of investment services to private clients and the raising of private equity funds. Ghaliston Limited changed its name on the following day to Merchant Securities Holdings Limited. With effect from the date of the May acquisition, two distinct major trading activities were added to those of the MSHL group, namely, the provision of dealing services to institutional clients and the provision of investment services to private clients. On 25 October 2006, following the reverse acquisition referred to in the above paragraph, Merchant Securities Limited changed its name to Merchant Securities Group Limited ("MSGL").

The principal activities of the Group are now 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 now all provided by MSGL, the Group's main operating subsidiary, which is authorised by the Financial Services Authority (FSA).

The Group trades from its head office in London and from a branch office in Leeds. Marketing and servicing of the Group's clients are undertaken from both these offices and the settlement, operations, research and strategic activities are centralised from the London 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 annexed financial statements. Note that under IFRS 3, "Business combinations", consolidation of the Group's results and of its state of affairs at the end of the year has been prepared on the basis that the acquisition on 25 October 2006 constituted a reverse takeover and that MSHL was effectively the acquiring company. Therefore, the consolidated results are those of MSHL for the year from 1 April 2006, MSGL from 24 May 2006, and MSPLC from 25 October 2006. The comparative figures are those of MSHL for the year to 31 March 2006.

The Chairman's Statement includes a review of the business, and the gross profit deriving from its principal trading activities is shown in Note 4. The directors believe that each of the four business activities referred to above can be expanded and can generate increased profitability in the forthcoming year. Key financial performance indicators include revenue, client numbers and gross margin. Current and prior year figures for revenue and profit before tax, goodwill impairment, revaluation of investments and non-recurring items are given in the Consolidated Income Statement. During the year ended 31 March 2007, the trading company in the Group transacted with approximately 670 private and institutional clients, compared with approximately 720 during the year ended 31 March 2006. It should be noted that as the trading activities of the Group have changed substantially during the course of the year following the acquisition in May, the measurement of performance against previous years in respect of revenue and profit before tax is not very meaningful.

Other key performance indicators

During the year, the Group has successfully expanded its core activities (mainly as a result of the business combinations), floated its shares on AIM, and moved into newly refurbished office space in the City. Despite these major achievements, staffing levels have remained relatively stable, increasing from 23 at the date of the acquisition in May to 25 at the end of the year.

The Group currently uses one system for its private client investment activities, and a separate trading platform for the institutional trading desk. The former system encompasses trade processing, counterparty settlements, client treasury and client reporting. It is planned to replace these two systems with one combined system, which should enhance trade order management and enable more flexible client reporting as well as improve the efficiency of the other functions currently provided by the existing systems. It will also be compliant with the requirements of the London Stock Exchange of which MSGL has recently applied to become a member firm.

The Group has acquired a number of shares and warrants as a result of its pre-existing corporate finance activities and also following the two acquisitions effected during the year. The investments available for sale at the start of the year have been sold during the year for a profit of £89,418. As a result of the acquisition in May, the Group acquired a number of warrants and options which the Group has classified as available for sale, and valued at £74,760 at the year end. As a result of the acquisition in October, the Group acquired a holding in Phynova plc, which has been classified as held-for-sale, and valued at the year end at £390,000.

Strategy and business objectives

The Group plans to consolidate 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 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 18.

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 by the Board to identify, monitor and mitigate the principal risks facing the Group. The Risk Committee will meet at least quarterly and will present its findings to the Board and the Audit Committee.

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.

Directors

The directors of the Company during the year were as follows:

Mr P T Claridge (appointed 25 October 2006)
Mr F A B Fabrizi (appointed 25 October 2006)
Mr J L Green (appointed 25 October 2006)
Mr C B Price (appointed 25 October 2006)
Mr S J Whelton (appointed 25 October 2006)
Mr D Barton (resigned 25 October 2006)
Mr A D Pereira (resigned 25 October 2006)

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

Supplier payment policy

It is the Group's policy to pay suppliers in accordance with agreed contractual terms.

Political and charitable donations

The Group made charitable donations of £260 during the year (2006: £nil), but no political donations (2006: £Nil).

Substantial shareholdings

At 31 March 2007, the following persons held in excess of 3% of the ordinary share capital of the Company:

Shareholder	Number of shares	Percentage held
Anthony Fabrizi	4,958,001	25.53%
Gartmore Investment Limited	2,642,363	13.61%
Andertec Limited	1,321,181	6.80%
Ruffler Bank plc	1,220,591	6.29%
CE/UK Limited	1,189,063	6.12%
Patrick Claridge	990,886	5.10%
City and Continental LLP	825,738	4.25%
City and Continental Securities	687,000	3.54%

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 three executive directors and two non-executive directors (both of whom have shareholdings and options over the shares of the Company). The Board of the main trading company, MSGL, also includes the same non-executive directors as well as five executive directors. In both cases, 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.

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.

MERCHANT SECURITIES PLC

REPORT OF THE DIRECTORS

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 (as amended by s.119 of the Companies Act 1989), 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

S Whelton

Steven Whelton
Director

23 July 2007

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 2007 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 Annual Report and the Group 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 and, with regards to the Group financial statements, Article 4 of the IAS Regulation. 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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MERCHANT SECURITIES PLC

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.

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 2007 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 2007;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- 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

HORWATH CLARK WHITEHILL LLP
Chartered Accountants
and Registered Auditors
St Bride's House
10 Salisbury Square
London EC4Y 8EH
30 July 2007

"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

	Notes	£	Year ended 31 March 2007 £	£	Year ended 31 March 2006 (as restated) £
Revenue	4		**4,090,737**		295,400
Cost of sales	4		**(352,740)**		(11,500)
Gross profit	4		**3,737,997**		283,900
Other income	4		**9,135**		–
General administrative expenses		**3,471,019**		216,275	
Impairment of goodwill	5	**422,041**		–	
Revaluation of investments held for sale	5, 14	**95,875**		–	
AIM admission expenses and other non-recurring items	5	**385,950**		–	
			(4,374,885)		(216,275)
Operating profit / (loss)	8		**(627,753)**		67,625
Investment revenues	6		**195,249**		2,409
Finance costs	6		**(83,190)**		–
Loss on disposal of fixed assets			**(11,733)**		–
Profit on disposal of available-for-sale investments	7		**89,418**		1,490
Profit / (loss) before taxation			**(438,009)**		71,524
Taxation	10		**(76,859)**		(12,430)
Profit / (loss) for the year attributable to equity holders of the Company			**(514,868)**		59,094
Earnings per share					
Basic and diluted	11		**(3.23p)**		1.79p

The profit / (loss) for the year attributable to equity holders of the Company is as follows:			
Profit before tax, goodwill impairment, revaluation of investments and non-recurring items		**465,857**	71,524
Impairment of goodwill	**422,041**		
Revaluation of investments held for sale	**95,875**		
AIM admission expenses and other non-recurring items	**385,950**		
		(903,866)	–
		(438,009)	71,524
Taxation		**(76,859)**	(12,430)
		(514,868)	59,094

No dividends were paid during the year (2006: £Nil).

The notes on pages 15 to 41 form an integral part of these consolidated financial statements.

MERCHANT SECURITIES PLC

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSES

	Notes	Year ended 31 March 2007 £	Year ended 31 March 2006 (as restated) £
Loss on revaluation of available-for-sale shares, options and warrants taken to equity	14	**(58,907)**	(6,680)
Deferred tax on losses on available-for-sale shares, options and warrants	20	**17,672**	2,004
Net expenses recognised directly in equity		**(41,235)**	(4,676)
Released from equity on disposal of assets		**(110,684)**	–
Gain/(loss) for the year		**(514,868)**	59,094
		(666,787)	54,418

A reconciliation of the changes in equity is given in Note 31.

The notes on pages 15 to 41 form an integral part of these consolidated financial statements.

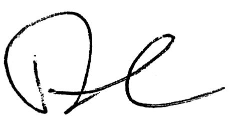
MERCHANT SECURITIES PLC

CONSOLIDATED BALANCE SHEET
as at 31 March 2007

	Notes	£	2007 £	£	2006 (as restated) £
Non-current assets					
Goodwill	12		**2,708,015**		–
Property, plant and equipment	13		**76,489**		4,455
Available-for-sale investments	14		**74,760**		342,620
			2,859,264		347,075
Current assets					
Trade and other receivables	16	**3,022,949**		121,825	
Trading investments	14	**390,000**		–	
Cash and cash equivalents	17	**2,113,638**		113,455	
Deferred tax asset	20	**35,654**		–	
			5,562,241		235,280
Current liabilities					
Trade and other payables	19	**2,999,528**		32,710	
Current tax liabilities		**113,607**		28,546	
			(3,113,135)		(61,256)
Net current assets			**2,449,106**		174,024
Non-current liabilities					
Deferred tax liabilities	20		**(22,428)**		(47,436)
Total assets less liabilities			**5,285,942**		473,663
Equity					
Share capital	21		**1,942,000**		90,001
Share premium account			**7,408,351**		–
Other reserves			**(3,845,350)**		–
Retained earnings			**(241,890)**		272,978
Revaluation reserve / (deficit)			**(41,235)**		110,684
Share-based payment reserve			**64,066**		–
Equity attributable to equity holders of the Company			**5,285,942**		473,663

These financial statements were approved by the board of directors and authorised for issue on 23 July 2007.

Signed on behalf of the Board of Directors



J L Green
Director

MERCHANT SECURITIES PLC

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 March 2007

	Notes	2007 £	2006 (as restated) £
Cash flows from operating activities			
Cash generated from / (used in) operations	24	**1,103,544**	(37,625)
Interest received	6	**195,249**	2,409
Interest paid	6	**(83,190)**	–
Tax paid		**(9,993)**	(2,822)
Net cash generated from / (used in) operating activities		**1,205,610**	(38,038)
Cash flows from investing activities			
Acquisition of subsidiary business	23	**(3,534,858)**	–
Reverse acquisition of MSPLC	23	**43,486**	–
Purchase of property, plant and equipment	13	**(42,877)**	(3,523)
Proceeds from / (cost of) disposal of tangible fixed assets		**(96)**	–
Proceeds from disposal of available-for-sale investments		**273,918**	34,190
Net cash generated from / (used in) investing activities		**(3,260,427)**	30,667
Cash flows from financing activities			
Proceeds from issue of shares		**4,055,000**	–
Repayment of subordinated loan		**–**	(25,000)
Net cash generated from / (used in) financing activities		**4,055,000**	(25,000)
Net increase / (decrease) in cash and cash equivalents		**2,000,183**	(32,371)
Cash and cash equivalents at beginning of year		**113,455**	145,826
Cash and cash equivalents at end of year		**2,113,638**	113,455

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.

Following the acquisition in October referred to in the Report of the Directors, the principal activities of the Group are now 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. All principal activities are now provided by MSGL, the Group's main operating subsidiary, which is authorised by the FSA.

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. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with IFRS, as endorsed by the European Union, for the first time. Comparatives for the Group have been restated in accordance with IFRS. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are shown in notes 27 to 31.

The following published standards and interpretations are not yet effective and have not been adopted early by the Group:

– IFRS 7 Financial Instruments: Disclosures
– IFRS 8 Operating Segments
– IFRIC 8 Scope of IFRS 2 Share-based Payment
– IFRIC 9 Reassessment of Embedded Derivatives
– IFRIC 10 Interim Financial Reporting and Impairment
– IFRIC 11 IFRS 2 – Group and Treasury share transactions
– IFRIC 12 Service Concession Arrangements

Basis of consolidation

The Group's financial statements consolidate the financial statements of the Company and its subsidiaries. As referred to in the Report of the Directors, the Company purchased the entire share capital of MSHL on 25 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. The Company subsequently changed its name from Castor Investments plc to Merchant Securities plc. IFRS 3 prescribes the application of reverse acquisition accounting as the basis of consolidation.

Having applied reverse acquisition accounting, the results of the Group for the year ended 31 March 2007 comprise the results of MSHL for the year ended 31 March 2007 and those of the Company from the date of the reverse acquisition. As MSHL had previously acquired MSGL, the results of the latter company have been incorporated from 24 May 2006, the date of this earlier acquisition. The comparative figures for the Group are those of MSHL for the year ended 31 March 2006.

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.

Goodwill arising on the acquisition of MSGL by MSHL in May amounted to £2,708,015. Goodwill of £422,041 arising on the reverse acquisition in October has been written off as it was felt that Castor Investments plc had no continuing business, and the goodwill therefore had little ongoing value.

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

Investments
Investments are reported at fair value based on current bid 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.

Changes in the valuation of assets held-for-sale are included in the Consolidated Income Statement, whereas gains and losses arising from adjustments to the value of investments available-for-sale are recognised directly in equity. On the disposal or permanent impairment of an investment available-for-sale, amounts previously recognised directly in equity are included in the Consolidated Income Statement.

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 substantially enacted at the balance sheet date. Timing differences are differences between the Group's taxable profits or losses, and its results as stated in the financial statements. Deferred taxation is measured on a non-discounted basis.

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

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

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

Income recognition
Revenue has been measured at the fair value of the consideration received or receivable and represents gross commissions and fees in the course of ordinary business, net of discounts, VAT and any other sales taxes. Commission from clients on investment services and dealing and execution services is recognised at the time those transactions are executed. Commission and fees from third parties are recognised when the relevant deals have been substantially completed. Management fees payable by clients are levied twice yearly. Uninvoiced fees accruing to 31 March 2007 have been accounted for. Interest is recognised as it accrues.

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

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.

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 Company 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.

As a result, the Group has decided that there has been no impairment to the goodwill of £2,708,015 arising on MSHL's acquisition of MSGL in May 2006. Conversely, the goodwill of £422,041 which arose on the reverse acquisition in October has been written off in its entirety.

4. REVENUE AND GROSS PROFIT BY SEGMENT

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)	–	**–**
	2,907,855	839,277	–	**3,747,132**
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 profit / (loss)	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**
Profit / (loss) before taxation	720,490	324,671	(1,483,170)	**(438,009)**
Taxation	–	–	(76,859)	**(76,859)**
Profit / (loss) 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.

Last year, the Group's only activity was the provision of corporate finance services.

5. PARTICULAR ADMINISTRATIVE EXPENSES

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

	Notes	2007 £	2006 (as restated) £
Write-off of goodwill	12	**422,041**	–
Impairment of investments held for sale	14	**95,875**	–
AIM admission expenses		**225,950**	–
Fund closure expenses		**160,000**	–
		903,866	–

The value of the investments held for sale was calculated at the time of the October acquisition for the purposes of calculating the fair value of the net assets, the fair value of the business and goodwill arising on the acquisition. The assets were previously carried at cost in the Company's accounts under UK GAAP. As those particular assets have subsequently been revalued to their market value at the end of the year, the resulting fall in value for the period from the date of acquisition to the year end has been recognised in the Consolidated Income Statement under IFRS, although the original increase in value did not pass through the Consolidated Income Statement. Effectively, the increase in value calculated in October referred to above reduced the goodwill arising on the business combination, and hence it is thought appropriate to treat the impairment of the value of those investments in the same way as the goodwill now written off.

6. INVESTMENT REVENUE AND FINANCE COSTS

Investment revenues comprise:

	2007 £	2006 (as restated) £
Interest receivable in respect of client bank accounts	**132,319**	–
Interest receivable in respect of Group company bank accounts	**55,632**	2,409
Other interest receivable	**7,298**	–
	195,249	2,409

Finance costs comprise:

	2007 £	2006 (as restated) £
Interest payable to clients	**60,705**	–
Interest on bank overdrafts	**20,862**	–
Other interest	**1,623**	–
	83,190	–

7. PROFIT ON DISPOSAL OF AVAILABLE-FOR-SALE INVESTMENTS

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

	2007 £	2006 (as restated) £
3,200,000 shares in Castor Investments plc	**79,502**	–
450,793 shares in IPoint Media plc	**9,916**	–
80,000 shares in Contemporary Enterprises plc	**–**	213
90,909 shares in Cyan Holdings	**–**	1,277
	89,418	1,490

In all cases the shares were held by MSHL, and the entire holding was disposed of. The disposal of the holding in Castor Investments plc (now Merchant Securities plc) was effected prior to the reverse acquisition in October.

8. PROFIT / (LOSS) FOR THE YEAR

The profit/(loss) for the year is stated after charging:

	2007 £	2006 (as restated) £
Auditors' remuneration – audit services	**34,848**	7,000
Auditors' remuneration – VAT advice	**2,142**	–
Auditors' remuneration – other tax advice	**10,388**	–
Auditors' remuneration – assistance re due diligence review	**2,581**	–
Operating leases – land and buildings	**89,226**	–
Operating leases – machinery	**19,696**	–
Depreciation of property, plant and equipment	**41,673**	1,461
Impairment of goodwill	**422,041**	–
Share-based payments	**35,000**	–

9. STAFF COSTS

Directors' remuneration

	2007 £	2006 (as restated) £
Aggregate emoluments (excluding pension contributions)	**820,994**	115,243
Highest paid director (included within the above)	**236,245**	115,243

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 1 (2006: 1). During the year £17,965 (2006 £Nil) 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

	2007 £	2006 (as restated) £
Short-term benefits (health care, dental care and subsidised gym membership)	**18,263**	–
Long-term benefits (life assurance, critical illness cover and income protection)	**10,499**	–
Share based payments	**10,095**	–
	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)

	2007 £	2006 (as restated) £
Wages and salaries (including commission and bonuses)	**2,093,789**	160,046
Social security costs	**250,054**	19,756
Termination payments – directors	**75,587**	–
Termination payments – other	**30,000**	–
	2,449,430	179,802

Staff numbers

	2007 Number	2006 Number
Executive directors	**5**	1
Others	**17**	1
The average number of employees (including directors) during the year was:	**22**	2

Pension contributions
During the year an expense of £17,965 (2006 £Nil) 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 charge is based on the results for the year of ordinary activities and comprises:

	2007 £	2006 (as restated) £
UK corporation tax at 26.6% (2006: – 19%)	**88,656**	12,430
Deferred tax (see below)	**(11,797)**	–
	76,859	12,430

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

Corporation tax charge

	2007 £	2006 (as restated) £
Based on taxable profit/(loss) for the year:	**(438,009)**	71,524
UK corporation tax – current year at 30%	**(131,403)**	–
UK corporation tax – adjustments in respect of calculation at 19%	**(9,522)**	13,590
Prior year adjustment	**–**	(3,891)
Effects of:		
Amortisation of goodwill	**126,612**	–
Disallowable AIM admission fees	**67,768**	–
Revaluation of held-for-sale assets recognised in Consolidated Income Statement	**28,763**	–
Calculation of rent under IFRS	**757**	–
Share-based payment expense	**10,500**	–
Other non-deductible expenses	**25,681**	2,895
Profit on sale of available-for-sale assets	**(26,825)**	–
Capital gains tax on disposal of above assets	**6,952**	–
Deferred tax movements in respect of utilisation of losses brought forward	**(38,186)**	–
Deferred tax movements in respect of excess of depreciation over capital allowances	**2,304**	(164)
Marginal relief	**(4,959)**	–
Differences arising from consolidated loss excluding results from full periods covered by corporation tax liability calculations	**30,214**	–
	88,656	12,430

Deferred tax credit

	2007	2006 (as restated)
	£	£
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**	–
Utilisation of tax losses acquired on acquisition of MSGL	**(19,818)**	–
	11,797	–

In addition to the above deferred tax balance credited to the Consolidated Income Statement, a deferred tax credit of £17,672 (2006: £2,004) emanating from the revaluation of available-for-sale shares, options and warrants has been credited directly to equity (see notes 20 and 31).

11. EARNINGS PER SHARE

Basic earnings per share are based on the post-tax loss for the year of £514,868 (2006: profit of £59,094) and on 15,932,619 ordinary 10p shares (2006: 3,306,524) 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 22.

Calculations are as follows:

Earnings for the purpose of basic and diluted earnings per share

	2007	2007	2006 (as restated)
		£	£
Net (loss) / profit attributable to equity holders of MSPLC		**(514,868)**	59,094
Impairment of goodwill	**422,041**		–
Revaluation of investments held-for-sale	**95,875**		–
AIM admission expenses	**225,950**		–
Fund closure expenses	**160,000**		–
Expenses added back		**903,866**	59,094
		388,998	–
Notional tax relief of 26.6% in respect of fund closure expenses		**42,560**	–
Notional net profit after adding back above expenses		**431,558**	59,094
Number of shares			
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share		**15,932,619**	3,306,524
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share		**18,056,542**	3,306,524
Earnings per share (EPS)			
Basic and diluted EPS based on profit/(loss) attributable to equity holders		**(3.23p)**	1.79p
Basic EPS after adding back above expenses		**2.71p**	1.79p
Diluted EPS after adding back above expenses		**2.39p**	1.79p

12. GOODWILL

Cost	**£**
At 1 April 2005 and 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	**3,130,056**
Impairment	
At 1 April 2005 and 1 April 2006	–
Charge for the year	422,041
At 31 March 2007	**422,041**
Net book value	
At 31 March 2007	**2,708,015**
At 31 March 2005 and 31 March 2006	**–**

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

The goodwill of £422,041 arising on the reverse acquisition in October has been written off as it was felt that MSPLC itself had no continuing business, and the goodwill therefore had little ongoing value. Please see Note 23 for details of the acquisitions which have given rise to the goodwill shown above.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold property improvements £	Computer hardware & software £	Furniture & fittings £	Office equipment £	Telephone equipment £	TOTAL £
Cost						
At 1 April 2005	–	2,611	–	–	–	2,611
Additions	–	3,523	–	–	–	3,523
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**
Depreciation						
At 1 April 2005	–	218	–	–	–	218
Charge for the year	–	1,461	–	–	–	1,461
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**
Net book value						
At 31 March 2007	**6,347**	**49,092**	**9,116**	**995**	**10,939**	**76,489**
At 31 March 2006	–	4,455	–	–	–	4,455

14. INVESTMENTS

Non-current investments

	2007 £	2006 (as restated) £
Investments available for sale at start of year at cost	**184,500**	217,200
IFRS revaluation adjustment brought forward	**158,120**	164,800
Investments available for sale at start of year at fair value	**342,620**	382,000
Disposal of investments	**(342,620)**	(32,700)
Share options at fair value on acquisition of subsidiary	**133,667**	–
Revaluation at year end	**(58,907)**	(6,680)
At 31 March 2007	**74,760**	342,620

Investments in All New Video plc (subsequently renamed IPoint Media plc) and Castor Investments plc (later renamed Merchant Securities plc) were disposed of during the course of the year. The difference between fair value and cost had previously been posted to the revaluation reserve. On disposal, these amounts were released from the revaluation reserve and the profit of £89,418 reflected in the Consolidated Income Statement.

On the acquisition of MSGL in May 2006, the Group acquired a number of warrants and options over shares in various companies, some unlisted, and others listed on AIM. The reduction of £58,907 in the fair value of these options between the acquisition date in May and the year end 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

	2007	2006 (as restated)
	£	£
Investments held for sale at start of year at fair value	–	–
Investments acquired at fair value on acquisition of subsidiary	**485,875**	–
Revaluation of investments at year end	**(95,875)**	–
Fair value of investments held for sale at end of year	**390,000**	–

On the reverse acquisition in October 2006, the Group acquired 650,000 shares in Phynova plc, which were deemed to have a fair value at that date of £485,875. At the end of the year, these shares were revalued at £390,000. This movement in fair value has been included in the Consolidated Income Statement.

15. GROUP COMPANIES

MSPLC is the legal parent company, although for accounts purposes, MSHL is regarded as the acquiring company. MSPLC owns 100% of MSHL, which owns 100% of MSGL. MSGL owns 100% of Merchant Securities Nominees Limited, a non-trading nominee company. In the opinion of the directors, there is no ultimate controlling party of MSPLC.

16. TRADE AND OTHER RECEIVABLES

Amounts falling due within one year

	2007	2006 (as restated)
	£	£
Receivable from clients	**1,980,557**	–
Receivable from counterparties	**604,851**	–
Other receivables	**180,228**	115,325
Prepayments and accrued income	**257,313**	6,500
	3,022,949	121,825

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

17. 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	£
Sterling	1,671,884	–	1,671,884
US dollars	1,030,708	1.9614	525,496
Euros	133,247	1.4735	90,429
Swiss francs	12,160	2.3945	5,078
Canadian Dollars	50,940	2.2627	22,513
			2,315,400

Note that no client money balances were held at 31 March 2006.

18. 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.

19. TRADE AND OTHER PAYABLES

	2007	2006 (as restated)
	£	£
Amounts owed to clients and other counterparties	**2,315,545**	–
Other taxes and social security	**65,407**	21,682
Accruals and deferred income	**518,317**	5,700
Other payables	**100,259**	5,328
	2,999,528	32,710

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

The Bank of Scotland holds a fixed and floating charge over the assets of MSGL arising from the company's lease of the previous office at 34 Southwark Bridge Road, London.

20. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets

	Share based payments	Total
	£	£
At 1 April 2005 and 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**

The directors believe that the expenses giving rise to the deferred tax asset will reverse in the foreseeable future, as the share options to which the expenses relate will be exercised within a prescribed time. They consider that sufficient taxable profits are likely to be generated in the meantime to justify its recognition.

A deferred tax asset of £6,347 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 investments £	Total £
At 1 April 2005	49,440	49,440
Revaluation of available-for-sale investments	(2,004)	(2,004)
At 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)**
At 31 March 2007	22,428	**22,428**

21. CALLED UP SHARE CAPITAL

	2007 £	2006 £
Authorised		
30,000,000 10p Ordinary shares	**3,000,000**	–
100,000 £1 A Ordinary shares	**–**	100,000
100,000 £1 B Ordinary shares	**–**	100,000
	3,000,000	200,000
Called up, allotted and fully paid		
19,420,000 10p Ordinary shares	**1,942,000**	–
70,001 £1 A Ordinary shares	**–**	70,001
20,000 £1 B Ordinary shares	**–**	20,000
	1,942,000	90,001

The authorised share capital of MSPLC at 1 April 2005 and 1 April 2006 was 200,000,000 shares of 1p each (£2,000,000), of which 27,200,000 (£272,000) were in issue. On 25 October 2006, the Company increased its authorised share capital to £3,000,000 by the creation of 100,000,000 ordinary shares of 1p each. Authorised share capital was then consolidated into 30,000,000 ordinary shares of 10p each. Issued share capital was consolidated into 2,720,000 ordinary shares of 10p each. On the same day, the Company issued 16,700,000 new ordinary shares of 10p each at a price of 50p each in consideration for the acquisition of the entire issued share capital of MSHL.

The comparative figures are in respect of the share capital of MSHL. During the period, MSHL reclassified its class 'A' ordinary shares and class 'B' ordinary shares of £1 each as ordinary shares of 1p each. Its authorised share capital was increased by £1,800,000 to £2,000,000 representing 200,000,000 shares of 1p each. On 24 May 2006, the existing 90,001 £1 shares were reclassified as 9,000,100 shares of 1p each. On the same date, a further 36,455,992 1p shares were purchased at a premium.

At 25 October 2006, immediately prior to the acquisition, 45,456,092 ordinary 1p shares in MSHL were in issue. These were exchanged for 16,700,000 new ordinary shares of 10p each in MSPLC.

Following this acquisition, 2,914,223 options to acquire new ordinary shares were granted to certain directors, employees and associates. These rights to acquire new ordinary shares were issued in exchange for options issued by MSHL on 30 June 2006. The options are exercisable between 30 June 2008 and 29 June 2016. Options issued prior to the start of the financial year expired on 2 March 2007.

22. SHARE BASED PAYMENTS

As mentioned in the previous note, the Group introduced equity-settled share-based option schemes during the year and awarded options to certain directors, employees and associates. The options relating to schemes 1 and 2 below, may be exercised between 30 June 2008 and 29 June 2016. The options relating to scheme 3 below, the value of which, in the opinion of the directors, was negligible, were exercisable up to 2 March 2007 and lapsed during the period. Options expire if the director or employee leaves the Group before exercise or if the options remain unexercised after the exercise period has lapsed.

Scheme 1
Grant date: 30 June 2006
Exercise period: 30 June 2008 to 29 June 2016

	2007		2006	
	Options (No.)	Weighted average exercise price	Options (No.)	Weighted average exercise price
Outstanding at the beginning of the year	–	–	–	–
Granted during the year	2,971,778	29.94p	–	–
Forfeited during the year	(500,100)	29.94p	–	–
Exercised during the year	–	–	–	–
Expired during the year	(167,005)	29.94p	–	–
Outstanding at the end of the year	2,304,673	29.94p	–	–
Exercisable at the end of the year	–	–	–	–

The average remaining life of the options at 31 March 2007 was 9 years and three months.

Scheme 2
Grant date: 26 October 2006
Exercise period: 30 June 2008 to 29 June 2016

	2007		2006	
	Options (No.)	Weighted average exercise price	Options (No.)	Weighted average exercise price
Outstanding at the beginning of the year	–	–	–	–
Granted during the year	**609,550**	**29.94p**	–	–
Forfeited during the year	**–**	**–**	–	–
Exercised during the year	**–**	**–**	–	–
Expired during the year	**–**	**–**	–	–
Outstanding at the end of the year	**609,550**	**29.94p**	–	–
Exercisable at the end of the year	**–**	**–**	–	–

The average remaining life of the options at 31 March 2007 was 9 years and three months.

Scheme 3
Grant date: Originally 22 February 2005, replacement options granted 26 October 2006
Exercise period: 2 March 2005 to 2 March 2007

	2007		2006	
	Options (No.)	Weighted average exercise price	Options (No.)	Weighted average exercise price
Outstanding at the beginning of the year	**–**	**–**	–	–
Granted during the year	**108,800**	**50p**	–	–
Forfeited during the year	**–**	**–**	–	–
Exercised during the year	**–**	**–**	–	–
Expired during the year	**(108,800)**	**50p**	–	–
Outstanding at the end of the year	**–**	**–**	–	–
Exercisable at the end of the year	**–**	**–**	–	–

For all three schemes, the weighted average exercise price was the same as the actual exercise price.

The Group has adopted IFRS 2, which requires companies to charge the income statement with the value of share based benefits given to employees over the period that they are earned. Previously in the UK, companies only needed to recognise such an expense if share options were issued at an exercise price that was lower than the market value at the time that the options were granted. Under IFRS 2, however, the fair value of the options needs to be assessed and the value charged to the income statement over the period that the benefit is earned. The Group recognised an expense of £35,000 for the year ended 31 March 2007 (2006: £Nil). The whole expense related to equity-settled share-based payments. The corresponding equity credit has been allocated to the share-based payment reserve. In addition, a deferred tax credit of £6,588 (2006: £Nil) has been recognised as deferred tax income in the Consolidated Income Statement.

The fair value of the options granted has been determined by using the Black-Scholes-Merton option price model which takes into account the exercise price of the option, the expected vesting period, the current share price, the risk-free interest rate and the expected volatility of the Company's share price.

Note that the options over shares in MSPLC issued during the year (Schemes 1 and 2) were granted to employees of MSGL.

The following assumptions have been made by the Group in calculating the charge to the Consolidated Income Statement:

Date of grant	Estimated fair value	Share price	Exercise price	Expected volatility	Expected life	Risk free rate	Expected dividends
30 June 2006	14.97p	0.50p	29.94p	29.9%	2.50 years	4.68%	Nil
26 October 2006	50.00p	23.56p	29.94p	29.9%	2.18 years	4.68%	Nil

Expected volatility has been determined by calculating average standard deviations of daily share prices of companies deemed to be comparable in size and activity (as calculated over appropriate time periods up to 30 June 2006 and 26 October 2006).

The expected vesting period is based on our assessment of when staff are likely to exercise, and of the effects of exercise restrictions and staff departures.

23. ACQUISITIONS

May 2006
On 24 May 2006, MSHL acquired the entire issued share capital of MSGL for a cash consideration of £4,050,000. The transaction has been accounted for by the acquisition method of accounting.

Net assets acquired

	Book value £	Adjustment £	Fair value £
Available-for-sale options and warrants	–	133,667	**133,667**
Property, plant and equipment	82,466	–	**82,466**
Trade and other receivables	1,991,322	–	**1,991,322**
Cash and cash equivalents	607,315	–	**607,315**
Deferred tax assets	–	19,818	**19,818**
Trade and other payables	(1,360,330)	–	**(1,360,330)**
Deferred tax liability	–	(40,100)	**(40,100)**
Goodwill	–	2,708,015	**2,708,015**
	1,320,773	2,821,400	**4,142,173**
Cash consideration			**4,050,000**
Costs of acquisition			**92,173**
			4,142,173
Net cash outflow arising on acquisition:			
Cash consideration paid			(4,142,173)
Cash and cash equivalents acquired			607,315
			(3,534,858)

In assessing the value of the net assets acquired, the directors considered whether there were any separately identifiable intangible assets, and concluded that there were none.

The goodwill arising on the acquisition of MSGL is attributable to anticipated profitability resulting from the distribution and expansion of the Group's services in new markets together with the anticipated future operating synergies from the combination.

MSGL contributed £4,065,737 to revenue and £197,365 to the Group's profit before tax for the period between the date of acquisition and the balance sheet date.

October 2006
On 25 October 2006, MSPLC acquired the entire issued share capital of MSHL, for a share consideration of £8,350,000, in a reverse acquisition that gave MSHL effective control of MSPLC.

The transaction has been accounted for by the reverse acquisition method of accounting. Under this method, the fair value of the cost of the business combination has been ascertained by reference to the fair value of the issued equity of MSPLC immediately prior to the combination. At the time, 2,720,000 ordinary shares of MSPLC were in issue and the fair value was deemed to be 50p per share, the price at which the new shares were subsequently floated on AIM.

Net assets of MSPLC acquired

	Book value £	Adjustment £	Fair value £
Investments	390,000	95,875	**485,875**
Trade and other receivables	448,499	–	**448,499**
Cash and cash equivalents	215,547	–	**215,547**
Trade and other payables	(8,477)	–	**(8,477)**
Corporation tax liability	(6,397)	–	**(6,397)**
Deferred tax liability	–	(25,027)	**(25,027)**
Goodwill arising on acquisition	–	422,041	**422,041**
	1,039,172	492,889	**1,532,061**
Fair value of the cost of the business combination			1,360,000
Costs of acquisition			172,061
			1,532,061

To effect the acquisition, MSPLC issued 16,700,000 ordinary shares at fair value of 50p each. Fair value was ascertained by reference to the share price quoted on AIM.

Net cash inflow arising on reverse acquisition:	
Cash consideration paid	(172,061)
Cash and cash equivalents acquired	215,547
	43,486

The goodwill attributable solely to the above business combination, £422,041, was written off in the Consolidated Income Statement for the year.

MSPLC contributed £Nil to revenue and £349,461 (including AIM admission costs and revaluation of investments held for sale) to the Group's loss before tax for the period between the date of acquisition and the balance sheet date.

24. CASH GENERATED FROM OPERATIONS

	Year ended 31 March 2007 £	Year ended 31 March 2006 (as restated) £
Operating (loss) / profit for the year	**(627,753)**	67,625
Adjustments for:		
Depreciation	**41,673**	1,461
Impairment of goodwill	**422,041**	–
Revaluation of investments held for sale	**95,875**	–
Share based payment expense	**35,000**	–
Increase in debtors	**(461,303)**	(75,534)
(Decrease) / increase in creditors	**1,598,011**	(31,177)
Net cash inflow / (outflow) from operating activities	**1,103,544**	(37,625)

25. FINANCIAL COMMITMENTS

The Group has entered into certain operating lease contracts, and the commitments falling due within twelve months of the balance sheet date on those leases are set out below:

	Land and buildings		Other	
	2007 £	2006 £	2007 £	2006 £
Leases expiring:				
Within one year	11,124	–	–	–
Between one and two years	127,238	–	–	–
Between two and five years	–	–	19,718	–
	138,362	–	19,718	–

26. RELATED PARTIES

The Company's bankers, Ruffler Bank plc ("Ruffler"), own 1,220,591 (6.29%) of the Company's issued ordinary shares. Certain directors of the Company, namely Messrs. Fabrizi, Price and Barton are directors of Ruffler. During the year, the Group invoiced £13,000 net of VAT to Ruffler in respect of corporate finance advice (2006: £5,400).

David Barton was a director of IPoint Media plc (formally known as All New Video plc, and previously as Gordian Investments plc), a company in which MSHL held shares as available for sale until their disposal during the year (see Note 7). During the year, the Group invoiced £Nil to IPoint Media plc in respect of corporate finance advice (2006: £39,675). See Note 14 above for details of the disposal of the investment.

Anthony Fabrizi and David Barton are both directors of Smart Voucher Limited, a company in which MSGL had options over shares (valued at £Nil by the directors at 31 March 2007) until their expiry in March 2007. During the year, the Group invoiced £11,000 net of VAT to Smart Voucher Limited in respect of corporate finance advice (2006: £29,180).

The Group paid £881 to Caplay plc in respect of rent during the year ended 31 March 2007 (2006: £9,936). Messrs. Fabrizi and Claridge are both directors of Caplay plc.

Anthony Fabrizi is a director of Virtue Fusion Limited, a company which was invoiced £41,000 net of VAT by the Group during the year (2006: £10,000). The balance owed by Virtue Fusion Limited at the year end was £1,175 (2006: £Nil).

Anthony Fabrizi was a director of BioProgress plc, a company which was invoiced £Nil by the Group during the year (2006: £5,000).

MSPLC, a group company, was formally known as Castor Investments plc. See Note 14 above for details of MSHL's disposal of the investment prior to the reverse acquisition in October.

Anthony Fabrizi is a director of SABAS Limited. During the year, the Group invoiced £Nil to SABAS Limited in respect of corporate finance advice (2006: £50,000).

The Company invoiced MSGL £44,000 (2006: £Nil) during the year for management services, and provided finance totalling £32,806 (2006: £Nil). MSHL paid an invoice on behalf of MSPLC totalling £114,087 (2006: £Nil). Balances owed to and by subsidiary undertakings are disclosed in Notes 34 and 35. MSHL provided finance to the value of £274,927 to MSGL (2006: £Nil).

Details of the acquisitions of MSGL and MSPLC are shown in Note 23. Details of share options granted by MSPLC to employees of MSGL are given in Note 22.

No balances were owed to or from the related party companies at either 31 March 2007 or 31 March 2006 other than those stated above.

27. EXPLANATION OF TRANSITION TO IFRS

This is the first year that the Group has presented its financial statements under IFRS. IFRS 1 "First Time Adoption of International Standards" permits companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the year of transition, but the Group has not sought to apply any of the optional exemptions.

Key impacts of IFRS

The significant differences between UK GAAP and IFRS which impact on the Group's financial position, financial performance and cash flows are as follows.

IAS 1 – Presentation of Financial Statements

IAS 1 prescribes a different nomenclature to certain assets, liabilities and reserves, and a different format to the cash flow statement. These different classifications are reflected throughout the consolidated financial statements, and the Consolidated Cash Flow Statement reflects the requirements of IAS 1. An entity now needs to present either a statement of changes in equity or a statement of recognised income and expense. The Group has presented a Consolidated Statement of Recognised Income and Expenses on page 12.

IFRS 3 – Business Combinations
IFRS 3 provides that where a company acquires another company, as a result of which the legal parent is subsequently subject to the control of the acquired company, the latter entity should be regarded as the acquirer for the purposes of accounting for the business combination. The erstwhile shareholders of MSHL acquired control of MSPLC through a simple majority interest following the acquisition in October, which has therefore been treated as a reverse acquisition. Under UK GAAP, the business combination acquisition would have been accounted for under the acquisition accounting method. This would have resulted in different calculations for goodwill arising on acquisition, net assets acquired, retained earnings, and other reserves.

As described in notes 5, 12 and 23, goodwill arising as a result of business combinations is now subject to an annual impairment review rather than being amortised over periods of up to 20 years.

IFRS 2 – Share-based Payments
The Group has recognised a charge to the Consolidated Income Statement of £35,000 for the fair value of outstanding share options issued to employees under the Group's share option schemes.

It should be noted that a share-based payment expense would have arisen under UK GAAP following the introduction of FRS 20 which would have been applicable for accounting periods commencing on or after 1 January 2006.

IAS 39 – Financial Instruments: Recognition and Measurement
Investments previously classified as fixed asset investments are now denoted as "available-for-sale investments" and classified as "non-current assets". The fair value of these investments is assessed at least annually. Unrealised gains and losses are recognised in the Consolidated Statement of Recognised Income and Expenses and in the revaluation reserve/(deficit) in the Consolidated Balance Sheet. On the disposal of such assets, realised gains and losses are recognised in the Consolidated Income Statement, and the revaluation reserve/(deficit) is adjusted accordingly.

Investments previously classified as current asset investments are now denoted as "held-for-sale investments" and classified as "current assets". The fair value of these investments is also assessed at least annually. Realised and unrealised gains and losses are recognised in the Consolidated Income Statement and in retained earnings in the Consolidated Balance Sheet.

IAS 12 – Income Taxes
The Group now recognises a deferred tax asset or liability on timing differences, on unused tax losses and on the revaluation of investments held for sale. On reduction of the timing differences, on the disposal of investments held for sale, or on the utilisation of tax losses, the deferred tax asset or liability is reduced accordingly. Deferred tax on the revaluation of available-for-sale investments is disclosed in the Consolidated Statement of Recognised Income and Expenses and in the revaluation reserve/(deficit) in the Consolidated Balance Sheet. On disposal, the deferred tax asset or liability is reversed.

28. EXPLANATION OF TRANSITION TO IFRS

Explanation of transition to IFRS
Effect of IFRS on the UK GAAP consolidated balance sheet as at 31 March 2005

	UK GAAP 31 March 2005 £	Presentation of financial statements IAS 1 £	Taxation IAS 12 £	Financial instruments IAS 39 £	IFRS 31 March 2005 £
Assets					
Non current assets					
Tangible	2,394	(2,394)			–
Property, plant and equipment		2,394			2,394
Investments	217,200			164,800	382,000
	219,594	–	–	164,800	384,394
Current assets					
Trade and other debtors	46,291				46,291
Investments held for sale					
Cash and cash equivalents	145,826				145,826
	192,117	–	–	–	192,117
Total assets	**411,711**	**–**	**–**	**164,800**	**576,511**
Equity and liabilities					
Equity					
Share capital	90,001				90,001
Share premium account					
Revaluation reserve			(49,440)	164,800	115,360
Subordinated loan	25,000				25,000
Retained earnings	213,884				213,884
Brought forward	195,270				195,270
Profit for the year	18,614				18,614
	328,885	–	(49,440)	164,800	444,245
Non current liabilities					
Deferred tax liabilities			49,440		49,440
Provisions					
	–	–	49,440	–	49,440
Current liabilities					
Trade and other creditors	48,387				48,387
Current tax liabilities	18,939				18,939
Bank loans and overdrafts					
Accruals, deferred income and proposed dividends	15,500				15,500
Total liabilities	82,826	–	–	–	82,826
Total equity and liabilities	**411,711**	**–**	**–**	**164,800**	**576,511**

29. EXPLANATION OF TRANSITION TO IFRS

Explanation of transition to IFRS
Effect of IFRS on the UK GAAP consolidated balance sheet as at 31 March 2006

	UK GAAP 31 March 2006 £	Presentation of financial statements IAS 1 £	Taxation IAS 12 £	Financial instruments IAS 39 £	IFRS 31 March 2006 £
Assets					
Non current assets					
Intangible – goodwill					
Tangible	4,455	(4,455)			–
Property, plant and equipment		4,455			4,455
Investments	184,500			158,120	342,620
	188,955	–	–	158,120	347,075
Current assets					
Trade and other debtors	121,825				121,825
Investments held for sale					
Cash and cash equivalents	113,455				113,455
	235,280	–	–	–	235,280
Total assets	**424,235**	**–**	**–**	**158,120**	**582,355**
Equity and liabilities					
Equity					
Share capital	90,001				90,001
Share premium account					
Own shares held					
Revaluation reserve			(47,436)	158,120	110,684
Other reserves					
Retained earnings	272,978				272,978
Brought forward	213,884				213,884
Profit for the year	59,094				59,094
	362,979	–	(47,436)	158,120	473,663
Non current liabilities					
Deferred tax liabilities			47,436		47,436
Provisions					
	–		47,436		47,436
Current liabilities					
Trade and other creditors	27,010				27,010
Current tax liabilities	28,546				28,546
Bank loans and overdrafts					
Accruals, deferred income and proposed dividends	5,700				5,700
Total liabilities	61,256	–	–	–	61,256
Total equity and liabilities	**424,235**	**–**	**–**	**158,120**	**582,355**

30. EXPLANATION OF TRANSITION TO IFRS

Explanation of transition to IFRS
Effect of IFRS on the UK GAAP consolidated income statement as at 31 March 2006

	UK GAAP 31 March 2006 £	Taxation IAS 12 £	Financial instruments IAS 39 £	IFRS 31 March 2006 £
Continuing operations				
Revenue	298,164			298,164
Cost of sales	(11,500)			(11,500)
Gross profit	**286,664**	**–**	**–**	**286,664**
Administrative expenses – general	(216,630)			(216,630)
Operating profit (/loss)	**70,034**	**–**	**–**	**70,034**
Profit on disposal of available-for-sale investments	1,490			1,490
Profit (/loss) before taxation	**71,524**	**–**	**–**	**71,524**
Taxation	(12,430)			(12,430)
Profit after tax	**59,094**	**–**	**–**	**59,094**

31. EXPLANATION OF TRANSITION TO IFRS

Reconciliation of changes in equity

	Called up share capital £	Revaluation reserve £	Subordinated loan £	Share premium account £	Share based payment reserve £	Other reserves £	Retained earnings £	Total equity £
Equity as at 31 March 2005 under UK GAAP	90,001		25,000				213,884	328,885
Revaluation of investment at fair value		164,800						164,800
Deferred tax charge on revalued assets		(49,440)						(49,440)
Equity as at 1 April 2005 under IFRS	**90,001**	**115,360**	**25,000**				**213,884**	**444,245**
Revaluation of investment at fair value (movement)		(6,680)						(6,680)
Deferred tax credit		2,004						2,004
Profit for the year ended 31 March 2006							59,094	59,094
Total recognised income and expense for the year		**(4,676)**					**59,094**	**54,418**
Dividends paid								
Subordinated loan repaid			(25,000)					(25,000)
Equity as at 31 March 2006 under IFRS	**90,001**	**110,684**					**272,978**	**473,663**
Revaluation of investment at fair value		(58,907)						(58,907)
Deferred tax charge		17,672						17,672
Transfer of realised gain		(110,684)						(110,684)
Profit / (loss) for the year ended 31 March 2007							(514,868)	(514,868)
Total recognised income and expense for the year		**(151,919)**					**(514,868)**	**(666,787)**
Share based payments					35,000			35,000
Deferred tax arising on tax treatment of share based expenses					29,066			29,066
Issue of shares – reorganisation of MSHL	364,560							364,560
Consolidation adjustments	1,487,439			7,408,351		(3,845,350)		5,050,440
Equity as at 31 March 2007 under IFRS	**1,942,000**	**(41,235)**	**–**	**7,408,351**	**64,066**	**(3,845,350)**	**(241,890)**	**5,285,942**

MERCHANT SECURITIES PLC

COMPANY BALANCE SHEET
as at 31 March 2007

			2007		2006 (as restated)
	NOTES	£	£	£	£
Fixed assets					
Investments	33		**8,100,019**		–
			8,100,019		–
Current assets					
Debtors	34	**115,825**		4,057	
Investments	33	**390,000**		750,000	
Cash at bank and in hand		**324,490**		251,997	
			830,315		1,006,054
Creditors: amounts falling due within one year	35		**(140,899)**		(31,342)
Net current assets			**689,416**		974,712
Net assets			**8,789,435**		974,712
Capital and reserves					
Called up share capital	36		**1,942,000**		272,000
Share premium account	38		**7,408,351**		703,351
Other reserves	39		**35,000**		25,000
Profit and loss account	39		**(595,916)**		(25,639)
Equity shareholders funds	37		**8,789,435**		974,712

These financial statements were approved by the board of directors and authorised for issue on 23 July 2007.

Signed on behalf of the board of directors

Steven Whelton
Director

23 July 2007

MERCHANT SECURITIES PLC

COMPANY CASH FLOW STATEMENT
for the year ended 31 March 2007

	NOTES	2007 £	2006 (as restated) £
Net cash outflow from operating activities	40	**(218,445)**	(23,543)
Returns on investment and servicing of finance			
Interest received		**14,500**	40,950
Net cash inflow from returns on investment and servicing of finance		**14,500**	40,950
Financial investment			
Acquisition of current asset investments		**–**	(750,000)
Acquisition of subsidiary	33	**(172,061)**	–
Proceeds from disposal of investments held for sale	33	**448,499**	–
Net cash inflow/(outflow) from financial investment		**276,438**	(750,000)
Financing			
Proceeds from the issue of share capital	33	**–**	
Net cash inflow from financing		**–**	–
Net increase / (decrease) in cash in the year		**72,493**	(732,593)

The notes on pages 44 to 50 form part of these financial statements.

32 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.

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

33 INVESTMENTS

Fixed asset investments

	2007	2006 (as restated)
	£	£
Net book value at 1 April	**–**	–
Additions at fair value	**8,522,061**	–
Diminution in value of investment	**(422,042)**	–
Net book value at 31 March	**8,100,019**	–

This investment represents the cost of acquiring MSHL less the diminution in the value of the investment. The cost of the investment comprises the value of 16,700,000 shares issued at 50p (£8,350,000) and acquisition expenses of £172,061.

Current asset investments

	2007	2006 (as restated)
	£	£
Net book value at 1 April	**750,000**	–
Additions at cost	**–**	750,000
Disposals at cost	**(360,000)**	–
Net book value at 31 March	**390,000**	750,000

The directors consider that the fair value of the current asset investment at 31 March 2006 was £1,250,000 being the market value as assessed by reference to quoted prices on AIM. The directors do not consider the fair value of the investment at 31 March 2007 to be materially different to the net book value shown above.

This investment comprises 650,000 ordinary shares representing approximately 4.4% 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 600,000 shares it held in Phynova Group plc for a total consideration of £448,499.

34 DEBTORS

	2007	2006 (as restated)
	£	£
Owed by subsidiary undertaking – MSGL	**111,806**	–
Prepayments	**3,046**	4,057
Other debtors	**973**	–
	115,825	4,057

35 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2007	2006 (as restated)
	£	£
Trade creditors	**2,136**	12,576
Amounts owed to subsidiary undertakings – MSHL	**114,087**	–
Accruals and deferred income	**15,170**	18,766
Corporation tax	**9,506**	–
	140,899	31,342

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

36 CALLED UP SHARE CAPITAL

	2007		2006	
	No.	£	No.	£
Authorised				
Ordinary shares of £0.10 each	**30,000,000**	**3,000,000**	200,000,000	2,000,000
Allotted, called up and fully paid				
At 1 April	**27,200,000**	**272,000**	27,200,000	272,000
Share consolidation 1 for 10	**(24,480,000)**	**–**	–	–
Shares issued (ordinary shares of £0.10 each)	**16,700,000**	**1,670,000**	–	–
At 31 March	**19,420,000**	**1,942,000**	27,200,000	272,000

On 25 October 2006, authorised share capital was increased to £3,000,000, the existing shares were consolidated and new shares were issued by means of which the Company acquired MSHL. The new shares were listed on the AIM on the following day.

37 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS FUNDS

	2007	2006 (as restated)
	£	£
At beginning of the year	**974,712**	984,590
New shares issued	**1,670,000**	–
Movement in share premium account	**6,705,000**	–
Other reserves	**10,000**	–
Loss for the year	**(570,277)**	(9,878)
At 31 March	**8,789,435**	974,712

38 RECONCILIATION OF MOVEMENTS IN SHARE PREMIUM ACCOUNT

	2007	2006 (as restated)
	£	£
At beginning of the year	**703,351**	703,351
Issued in year	**6,680,000**	–
Share warrant reserve written back on lapse of share options	**25,000**	–
At 31 March	**7,408,351**	703,351

39 RECONCILIATION OF MOVEMENTS IN PROFIT AND LOSS AND OTHER RESERVES

	2007	2006 (as restated)
	£	£
At beginning of the year	**(25,639)**	(15,761)
Loss for year	**(570,277)**	(9,878)
Profit and loss account	**(595,916)**	(25,639)
Other reserves – share based payments	**35,000**	25,000
At 31 March	**(560,916)**	(639)

40 NET CASH FLOW FROM OPERATING ACTIVITIES

	2007	2006 (as restated)
	£	£
Net operating loss	**(575,270)**	(50,828)
Profit on sale of investments	**(88,499)**	–
Diminution in value of goodwill	**422,041**	
Decrease / (increase) in trade and other receivables	**38**	(4,057)
Increase in trade and other payables	**23,245**	31,342
Net cash outflow from operating activities	**(218,445)**	(23,543)

41 FAIR VALUE DISCLOSURES

The fair value of the Company's financial assets is not materially different to their carrying value in the balance sheet with the exception of the current asset investment in Phynova as at 31 March 2006. See note 33 for details.

42 SHARE BASED PAYMENTS

MSPLC introduced certain share based option schemes during the year and awarded options to certain directors, employees and associates. Note that all staff are employees of MSGL. The options relating to schemes 1 and 2 below may be exercised between 30 June 2008 and 29 June 2016. The options relating to scheme 3 below, the value of which, in the opinion of the directors, was negligible, were exercisable up to 2 March 2007 and lapsed during the year. Options expire if the director or employee leaves the Group before exercise or if the options remain unexercised after the exercise period has lapsed.

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY
for the year ended 31 March 2007

Scheme 1
Grant date: 30 June 2006
Exercise period: 30 June 2008 to 29 June 2016

	2007		2006	
	Options No.	Weighted average exercise price Pence	Options No.	Weighted average exercise price Pence
Outstanding at the beginning of the year	**–**	**–**	–	–
Granted during the year	**2,971,778**	**29.94p**	–	–
Forfeited during the year	**(500,100)**	**29.94p**	–	–
Exercised during the year	**–**	**–**	–	–
Expired during the year	**(167,005)**	**29.94p**	–	–
Outstanding at the end of the year	**2,304,673**	**29.94p**	–	–
Exercisable at the end of the year	**–**	**–**	–	–

Scheme 2
Grant date: 26 October 2006
Exercise period: 30 June 2008 to 29 June 2016

	2007		2006	
	Options No.	Weighted average exercise price Pence	Options No.	Weighted average exercise price Pence
Outstanding at the beginning of the year	–	–	–	–
Granted during the year	609,550	29.94p	–	–
Forfeited during the year	–	–	–	–
Exercised during the year	–	–	–	–
Expired during the year	–	–	–	–
Outstanding at the end of the year	609,550	29.94p	–	–
Exercisable at the end of the year	–	–	–	–

Scheme 3 (1p shares)
Grant date: 22 February 2005
Exercise period: 2 March 2005 to 2 March 2007

1p shares

	Options No.	Weighted average exercise price Pence	Options No.	Weighted average exercise price Pence
Outstanding at the beginning of the year	1,904,000	5p	1,904,000	5p
Granted during the year	–	–	–	–
Forfeited during the year	(1,904,000)	5p	–	–
Exercised during the year	–	–	–	–
Expired during the year	–	–	–	–
Outstanding at the end of the year	–	–	1,904,000	5p
Exercisable at the end of the year	–	–	–	–

Scheme 3 (10p shares)
Grant date: 26 October 2006
Exercise period: 26 October 2006 to 2 March 2007

10p shares

	Options No.	Weighted average exercise price Pence	Options No.	Weighted average exercise price Pence
Outstanding at the beginning of the year	–	–	–	–
Granted during the year	108,800	50p	–	–
Forfeited during the year	–	–	–	–
Exercised during the year	–	–	–	–
Expired during the year	(108,800)	50p	–	–
Outstanding at the end of the year	–	–	–	–
Exercisable at the end of the year	–	–	–	–

The Group has adopted IFRS 2, which requires companies to charge the income statement with the value of share based benefits given to employees over the period that they are earned. Previously in the UK, companies only needed to recognise such an expense if share options were issued at an exercise price that was lower than the market value at the time that the options were granted. Under IFRS 2, however, the fair value of the options needs to be assessed and the value charged to the income statement over the period that the benefit is earned. The Group recognised an expense of £35,000 for the year. The corresponding equity credit has been allocated to other reserves.

The fair value of the options granted has been determined by using the Black-Scholes-Merton option price model which takes into account the exercise price of the option, the expected vesting period, the current share price, the risk-free interest rate and the expected volatility of the Company's share price.

The following assumptions have been made by the Group in calculating the charge to the Consolidated Income Statement:

Date of grant	Estimated fair value	Share price	Exercise price	Expected volatility	Expected life	Risk free rate	Expected dividends
30 June 2006	14.97p	0.5p	29.94p	29.9%	2.50 years	4.68%	Nil
26 October 2006	50.00p	23.56p	29.94p	29.9%	2.18 years	4.68%	Nil

Expected volatility has been determined by calculating average standard deviations of daily share prices of companies deemed to be comparable in size and activity (as calculated over appropriate time periods up to 30 June 2006 and 26 October 2006).

The expected vesting period is based on our assessment of when staff are likely to exercise, and of the effects of exercise restrictions and staff departures.

43 RELATED PARTY TRANSACTIONS

The Company's bankers, Ruffler Bank plc, own 1,220,591 (6.29%) of the Company's issued ordinary shares. Messrs. Fabrizi, Price and Barton are directors of Ruffler.

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.

MERCHANT SECURITIES PLC

NOTICE OF ANNUAL GENERAL MEETING

(see notes on pages 54 and 55 for a brief explanation of each of the resolutions)

Notice is hereby given of the Company's second Annual General Meeting to be held at John Stow House, 18 Bevis Marks, London EC3A 7JB on 26th day of September 2007, at 10.00 am for the following purposes:

ORDINARY BUSINESS
To receive and, if thought fit, pass the following resolutions numbered 1-7 (inclusive) as ordinary resolutions:

1. To receive and adopt the Company's annual accounts for the year ended 31 March 2007, 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 Anthony Fabrizi, who is retiring by rotation in accordance with the Company's articles of association, as a director and being eligible, offers himself for election.
4. To reappoint Mr John Green, who is retiring by rotation in accordance with the Company's articles of association, as a director and being eligible, offers himself for election.
5. To reappoint Mr Charles Price, who is retiring by rotation in accordance with the Company's articles of association, as a director and being eligible, offers himself for election.
6. To reappoint Mr Steven Whelton, who is retiring by rotation in accordance with the Company's articles of association, as a director and being eligible, offers himself for election.
7. 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 8, 11 and 12 will be proposed as ordinary resolutions, and resolutions 9 and 10 will be proposed as special resolutions:

Ordinary resolution

8. 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 £1,456,500 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

9. That, subject to and conditional upon the passing of resolution 8 the directors be granted power pursuant to section 95 of the Act to allot equity securities (as defined in section 94 of the Act) for cash 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 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 £873,900 representing approximately 45% 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

10. 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 10p 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 3,883,998 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 10p;

   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.

Ordinary Resolution

11. That the Company be authorised to amend the rules of the Unapproved Executive Share Option Scheme adopted by the Company in general meeting on 25 October 2006 (the "Unapproved Scheme") as follows:

    a) to delete rule 2.3 (permitted grant period); and

    b) to amend the reference from "shall not exceed ten per cent (10%) of the Company's issued ordinary share capital for the time being" in rule 3.1 to "shall not exceed twenty per cent (20%) of the Company's issued ordinary share capital for the time being".

Ordinary Resolution

12. That the Company be authorised to amend the reference from "shall not exceed ten per cent (10%) of the Company's issued ordinary share capital for the time being" in rule 4.1 of the rules of the Enterprise Management Incentive Share Option Scheme adopted by the Company in general meeting on 25 October 2006 (the "EMI Scheme") to "shall not exceed twenty per cent (20%) of the Company's issued ordinary share capital for the time being".

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 Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, by not later than 10.00 am 24 September 2007 (being 48 hours prior to the time fixed for the meeting) or, in the case of an adjournment, not later than 48 hours prior to the time fixed for the adjourned meeting at which the proxy is to vote.

(3) Completing and returning the Proxy Form does not preclude a member from attending and voting at the meeting.

(4) Pursuant to Regulation 41 of The Uncertificated Securities Regulations 2001, only those holders of Ordinary Shares who are registered on the Company's Share Register as at 5.00 pm on 24 September 2007 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.

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 2007 to the meeting.

Resolutions 2 – 6 reappointment of directors

The articles of association of the Company require that all directors appointed to the Company during the period since the last Annual General Meeting seek re-election.

Resolution 7 – 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 8 – authority to allot the relevant securities

The Company requires the flexibility to allot equity securities from time to time. Accordingly, resolution 8 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 £1,456,500.00 which represents approximately 75% of the Company's issued share capital at 24 July 2007. 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 9 – 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 £873,900 being approximately 45% of the current issued ordinary share capital. If given, this power will expire at the same time as the authority referred to in resolution 8. The directors consider this power desirable due to the flexibility afforded by it.

Resolution 10 – 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.

Resolutions 11 and 12 – amendment to the Unapproved Scheme and the EMI Scheme

The Company requires the flexibility to grant share options from time to time. Whilst it is noted that the permitted grant period set out in Rule 2.3 of the Unapproved Scheme (which provides that options shall not normally be granted until the 42 day period after the announcement of the Company's financial results or the 14 day period following an option holder to whom an option is to be granted becoming an employee) and the 10% limit on the number of shares in the Company that may be subject to share options at any one time in Rule 3.1 of the Unapproved Scheme and Rule 4.1 of the EMI Scheme are considered to be good corporate practice and follow the recommendations of the Association of British Insurers, the limits are not mandatory for AIM listed companies and are unduly restrictive for the Company. Accordingly, the directors consider that Rule 2.3 of the Unapproved Scheme should be deleted and the Company should instead rely on the AIM rules which prevent share options being granted to directors and certain employees during a close period and that that the 10% limit in Rule 3.1 of the Unapproved Scheme and Rule 4.1 of the EMI Scheme should be increased to 20%.

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