



Merchant Securities plc
Interim results for the six month period ended 30 September 2009

INTERIM REPORT TO SHAREHOLDERS

Merchant Securities plc (the "Group"), the financial services group specialising in institutional sales, research and trading, private client broking and investment management, corporate finance and corporate broking, announces its interim results for the six month period ended 30 September 2009.

Financial and operational highlights:

- Gross revenue £3.3 million (£2.4 million for corresponding period in 2008) up 37%
- Underlying profit before tax £289,471*, compared to a loss of £581,575** for the same period in 2008
- Profit before taxation £123,000, compared to a loss of £1.35 million for the same period in 2008
- Strong balance sheet with £2.2 million of net cash
- Advisory and discretionary funds under management increased 70% on corresponding period in 2008 to £152 million
- Trading subsidiaries integrated and rebranded as Merchant John East Securities Limited
- Acquisition of Cavendish Young Limited, an Independent Financial Adviser and fee based Wealth Management company.

(* underlying profits are before amortisation of intangible assets and discretionary profit share)

(** underlying losses are before goodwill impairment, revaluation of investments and non-recurring items)

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

"The action taken last year to focus on the Group's core activities and manage the cost base has assisted in producing the positive results presented in the interim report. Conditions allowing, we are optimistic that we will build on the progress of the first half when we moved back into profit before tax and that the Group is now well placed to take advantage of growth opportunities in the future."

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Chairman's Statement

Introduction

I am pleased to announce a profitable result for the six month period ended 30 September 2009. This is a substantial turnaround from the outcome for the same period in 2008 and reflects the board's decision, taken last year, to focus on the Group's core activities and has been assisted by an improvement in some of the markets in which we operate.

The restructure and branding referred to in my last Chairman's statement have been completed. Operating as one company under the single brand name of Merchant John East Securities Limited, we are now in a strong position within the industry to offer a full range of financial services encompassing private client broking and investment management, institutional research and sales trading and corporate finance and broking.

Operational and financial review

Gross revenue increased 37% in the period under review to £3.27 million (£2.39 million 2008) with operating profit before amortisation, and provision for a profit sharing bonus pool, of £289,471 compared to a loss of £581,575 in the corresponding period in 2008. Net profit before taxation was £123,000, compared to a loss of £1.35 million for the corresponding period last year.

Cash balances remain strong at £2.2 million net of a small overdraft resulting from the acquisition of Cavendish Young.

Equity markets were strong in the period under review, and provided a favourable environment for our institutional sales trading and research activities. All performed well and added to their client bases. In particular we have continued to increase the number of institutional clients subscribing to the daily research product, Mercantalytst, the insightful and highly regarded technical review of trends in the market.

Our private client business, too, together with our contracts for difference activities, enjoyed the more favourable market conditions. We launched a further three managed funds in the period, taking our total to seven. We also acquired Cavendish Young Limited, an independent wealth management company, which has allowed us to increase the range of services we offer to private clients. A combination of these factors enabled us to increase funds under group management by £46 million and the private client base by 2,500 clients.

Although there has been a pick up in the level of activity in the large end of the corporate market, this has not been true of AIM where we operate predominately. Business conditions have remained difficult for raising money for smaller companies. In June this year, however, our corporate finance division advised and acted for Toluna plc on its acquisition of the ISS division of Greenfield Online, Inc. a subsidiary of Microsoft Corporation, Inc. This transaction was named the AIM Transaction of the Year at the recent 2009 AIM Awards and we are pleased to have played our part in its execution.

Strategic development

We have now successfully completed the integration of the Merchant Securities' and John East & Partners' businesses. These are now trading under the single name of Merchant John East Securities Limited. We have no doubt that significant synergies will flow from this,



particularly when we are able to move both businesses into the same office, which we expect to take place in the middle of next year.

As stated above Cavendish Young, the wealth management advisory business, has recently been acquired. This has now been relocated to our head office in Bevis Marks, London and is expected to produce significant benefits for our existing private client business.

We continue to look for further acquisitions of groups of individuals and businesses which will help us to build our core activities.

Outlook

With the restructuring now completed and the Group positioned with the one Merchant John East Securities brand, we expect to make further progress in the second half. We look to continue to build our institutional and private client businesses, while there are signs of more activity in our corporate finance area.

The strength of the Group now allows us to seek to continue to grow by acquisition as well as organically and it is the board's intention to do so should the right opportunities arise.

All the activities of the Group are seeing signs of improvement. General conditions allowing, we are optimistic that we will continue with the progress made in the first half of the year.

John Green
Chairman

8 December 2009

About Merchant Securities plc

Merchant Securities plc provides a range of financial service products and advice to high net worth private clients, institutions and smaller businesses. The Company is the parent company of Merchant John East Securities Limited, which is authorised and regulated by the Financial Services Authority and provides a range of services, including advisory and discretionary wealth management for high net worth private clients, research, sales and sales trading for institutional investors, and corporate finance and corporate broking services, including raising capital, for smaller public and private companies. In September 2009, it acquired Cavendish Young Limited, an Independent Financial Adviser and fee based Wealth Management company.



Merchant Securities plc

MERCHANT SECURITIES PLC

Interim unaudited accounts for the six month period ended 30 September 2009

CONSOLIDATED INCOME STATEMENT

	Six months to 30 September 2009 Unaudited £000	Six months to 30 September 2008 Unaudited £000	Year ended 31 March 2009 Audited £000
Revenue	3,266	2,381	5,425
Cost of sales	(605)	(426)	(829)
Gross Profit	2,661	1,955	4,596
Other income	-	4	40
General administrative expenses	(2,396)	(2,626)	(5,266)
Impairment of goodwill	-	-	(2,624)
Impairment of intangible assets	-	-	(647)
Amortisation of intangible assets	(84)	(60)	(120)
Revaluation of assets held for sale	-	(422)	(382)
Profit/(loss) on disposal of trading investments	19	-	(15)
Non-recurring items	-	(287)	(287)
Profit share accrual	(82)	-	-
Operating profit/(loss)	118	(1,436)	(4,705)
Investment revenues* ¹	5	86	147
Interest payable* ¹	-	-	(18)
Profit/(loss) before taxation	123	(1,350)	(4,576)
Taxation	-	9	108
Profit/(loss) attributable to equity holders	123	(1,341)	(4,468)

*¹ September 2008 restated. Interest received and interest paid have been netted at September 2008 for comparability purposes.

Earnings per share

Basic	0.26p	(3.61p)	(10.63p)
Diluted	0.24p	(3.61p)	(10.63p)

The profit/(loss) for the period attributable to equity holders of the Company is as follows:			
Profit before tax, goodwill impairment, revaluation of investments and non-recurring items	289	(582)	(501)
Impairment of goodwill	-	-	(2,624)
Impairment of intangible assets	-	-	(647)
Amortisation of intangible assets	(84)	(60)	(120)
Revaluation of investments held for sale	-	(421)	(382)
Loss on disposal of investments held for sale	-	-	(15)
Non-recurring items	-	(287)	(287)
Profit share accrual	(82)	-	-
	123	(1,350)	(4,576)
Taxation	-	9	108
Profit/(loss) attributable to equity holders	123	(1,341)	(4,468)



Merchant
Securities plc

MERCHANT SECURITIES PLC
Interim unaudited accounts for the six month period ended 30 September 2009

CONSOLIDATED BALANCE SHEET

	30 September 2009 Unaudited £000	30 September 2008 Unaudited £000	31 March 2009 Audited £000
Non-current assets			
Goodwill	2,757	5,128	2,554
Intangible assets	478	1,269	562
Property, plant and equipment	243	332	275
Trade and other receivables	150	150	150
	<u>3,628</u>	<u>6,879</u>	<u>3,541</u>
Current assets			
Trade and other receivables	1,522	877	1,027
Trading investments	-	-	-
Cash and cash equivalents	2,191	2,270	2,153
	<u>3,713</u>	<u>3,147</u>	<u>3,180</u>
Total assets	<u>7,341</u>	<u>10,026</u>	<u>6,721</u>
Current liabilities			
Trade and other payables	(1,052)	(916)	(727)
Current tax liabilities	-	-	-
	<u>(1,052)</u>	<u>(916)</u>	<u>(727)</u>
Non-current liabilities			
Deferred consideration	(176)	-	-
Deferred tax liabilities	(16)	(21)	(16)
	<u>(1,244)</u>	<u>(937)</u>	<u>(743)</u>
Total liabilities	<u>(1,244)</u>	<u>(937)</u>	<u>(743)</u>
Total assets less liabilities	<u>6,097</u>	<u>9,089</u>	<u>5,978</u>
Equity			
Share capital	3,272	3,272	3,272
Share premium account	11,705	11,705	11,705
Other reserves	(3,845)	(3,845)	(3,845)
Share-based payment reserve	288	241	292
Revaluation reserve/(deficit)	-	35	-
Retained earnings	(5,323)	(2,319)	(5,446)
Equity attributable to equity holders	<u>6,097</u>	<u>9,089</u>	<u>5,978</u>



Merchant
Securities plc

CONSOLIDATED CASH FLOW STATEMENT

	Six months to 30 September 2009 Unaudited £000	Six months to 30 September 2008 Unaudited £000	Year ended 31 March 2009 Audited £000
Cash flow from operating activities			
Cash generated from operations	97	(1,081)	(1,087)
Interest received	5	158	147
Interest paid	-	(72)	(19)
Tax paid	-	(46)	(92)
Net cash generated from / (used in) operating activities	<u>102</u>	<u>(1,041)</u>	<u>(1,051)</u>
Cash flows from investing activities			
Acquisition of subsidiary business	(60)	-	(50)
Purchase of property, plant and equipment	(23)	(4)	(11)
Proceeds from disposal of available-for-sale investments	19	-	25
Purchase of held-for-sale investments	-	-	(75)
Net cash generated from investing activities	<u>(64)</u>	<u>(4)</u>	<u>(111)</u>
Cash flows from financing activities			
Net proceeds from sale of shares	-	1,522	1,522
Net cash generated from financing activities	<u>-</u>	<u>1,522</u>	<u>1,522</u>
Net increase in cash and cash equivalents	38	477	360
Cash and cash equivalents at beginning of period	<u>2,153</u>	<u>1,793</u>	<u>1,793</u>
Cash and cash equivalents at end of period	<u>2,191</u>	<u>2,270</u>	<u>2,153</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Other reserves	Revaluation reserve	Share based payment reserve	Retained earnings	Total Equity
	£000	£000	£000	£000	£000	£000	£000
Equity as at 1 April 2007	1,942	7,408	(3,845)	(41)	64	(242)	5,286
Revaluation of investments available for sale at fair value				(64)			(64)
Deferred tax credit				19			19
Profit for the 6 months ended 30 September 2007						53	53
Total recognised income and expenses for the period				(45)		53	8
Share based payments					33		33
Equity as at 30 September 2007	1,942	7,408	(3,845)	(86)	97	(189)	5,327
Revaluation of investment at fair value				133			133
Deferred tax credit				(11)			(11)
Loss for the 6 months ended 31 March 2008						(789)	(789)
Total recognised income and expenses for the period				122		(789)	(667)
Issue of shares	1,173	2,932					4,105
Share based payments					55		55
Equity as at 31 March 2008	3,115	10,340	(3,845)	36	152	(978)	8,820
Revaluation of investment at fair value							-
Deferred tax credit							-
Loss for the 6 months ended 30 September 2008						(1,341)	(1,341)
Total recognised income and expenses for the period						(1,341)	(1,341)
Issue of shares net of costs	157	1,365					1,522
Share based payments					89		89
Equity as at 30 September 2008	3,272	11,705	(3,845)	36	241	(2,319)	9,090
Revaluation reserve movement				(36)			(36)
Share based payments					52		52
Loss for the 6 months ended 31 March 2009						(3,127)	(3,127)
Equity as at 31 March 2009	3,272	11,705	(3,845)	-	293	(5,446)	5,979
Share based payments					(5)		(5)
Profit for the 6 months ended 30 September 2009						123	123
Equity as at 30 September 2009	3,272	11,705	(3,845)	-	288	(5,323)	6,097



NOTES

Note 1 – Accounting policies

Basis of preparation

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

The interim financial statements have been prepared on the basis of the accounting policies as stated in the consolidated financial statements for the year ended 31 March 2009. The interim financial statements should be read in conjunction with those audited financial statements for the year ended 31 March 2009. The Group has adopted the requirements of IFRS 8 - Segmental Reporting for the first time, the results of which are presented in note 3. below.

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

The statutory accounts for the year ended 31 March 2009, which were prepared under IFRS, have been delivered to the Registrar of Companies. The auditors of the Group, Horwath Clark Whitehill LLP, reported on those accounts: their report was unqualified and did not contain a statement under either Section 237 (2) or Section 237 (3) of the Companies Act 1985.

Note 2 – Basis of consolidation

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

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

Note 3 – Revenue and gross profit by segment

The Group's results for the period ended 30 September 2009, all of which were generated within the United Kingdom, can be analysed by product as follows:

	Six months to 30 September 2009 Unaudited £000	Six months to 30 September 2008 Unaudited £000	Year ended 31 March 2009 Audited £000
Revenue			
Private client	1,788	1,175	2,396
Institutional broking	708	336	1,199
Corporate	803	870	1,830
Central	(33)	-	-
	<u>3,266</u>	<u>2,381</u>	<u>5,425</u>
Profit/(loss) before tax			
Private client	585	(152)	(253)
Institutional broking	100	(261)	355
Corporate	(396)	(259)	(714)
Central	(166)	(678)	(3,965)
	<u>123</u>	<u>(1,350)</u>	<u>(4,577)</u>
Total assets – Central	<u>7,341</u>	<u>10,026</u>	<u>6,721</u>

The Group does not allocate its balance sheet between business segments.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 4 – Taxation

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

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

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

	Six months to 30 September 2009 Unaudited £000	Six months to 30 September 2008 Unaudited £000	Year ended 31 March 2009 Audited £000
Current UK corporation tax	-	5	(78)
UK Corporation tax adjustments in respect of prior periods	-	-	(25)
Deferred tax	-	(14)	(5)
	<u>-</u>	<u>(9)</u>	<u>(108)</u>

Note 5 - Earnings per share

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

	Six months to 30 September 2009 Unaudited £000	Six months to 30 September 2008 Unaudited £000	Year ended 31 March 2009 Audited £000
Basic EPS			
Profit/(loss) for the period	123	(1,341)	(4,468)
Weighted average number of shares in issue (000)	46,897	37,172	42,021
Diluted EPS			
Profit/(loss) for the period	123	(1,341)	(4,468)
Weighted average number of shares in issue (000)	52,219	42,717	47,220