Merchant Securities

Merchant Securities Group plc

Annual Report 2011

for the year ended 31 March 2011

Merchant Securities

Group Overview

Introduction

Merchant Securities Group plc ("Merchant" or "the Group"), which joined AIM in 2006 (stock code: MERC), offers a broad range of financial services through its Private Client Wealth Management and Investment Banking divisions. Based in London, it currently operates from five offices in the UK and employs 73 staff.

Private Client Wealth Management

The Private Client Wealth Management division provides discretionary and advisory wealth management services and financial planning advice to a broad client base, comprising private individuals, small and medium sized businesses, pension funds and charitable trusts. The division manages client portfolios typically ranging in size from £50,000 to £3 million.

Through both organic growth and recent acquisitions, the division has developed significantly and it currently holds c. £487 million of funds under management, approximately £80 million of which is under discretionary management.

The division has recently won industry awards, including Best Advisory Service in The Daily Telegraph Wealth Management Awards 2010 and was named as one of the UK's Top 25 IFA companies in an independent survey by Private Client Practitioner magazine.

Investment Banking

The Investment Banking division provides financial advisory and execution services to both publicly quoted and private companies. Focusing on small and medium sized companies, it offers a full range of services from corporate finance to equity research, sales and trading.

The division currently acts as nominated adviser and/or broker to 31 publicly quoted companies, the majority of which are traded on AIM, and has significant experience in assisting companies in raising capital whether via initial public offerings or secondary fundraisings. Activities within this division have recently been expanded, notably within the equity research team. Research coverage now includes the Alternative Energy, Consumer, Oil & Gas, Support Services and Technology sectors. Recent hires within the sales and corporate broking teams have also contributed to strengthening the division's offering.

The Group's activities are authorised and regulated by the Financial Services Authority and, via its subsidiaries, it is a member of the London Stock Exchange and a member of APCIMS.

Merchant Securities

Annual Report and Financial Statements

for the year ended 31 March 2011

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Merchant Securities

Company Information

for the year ended 31 March 2011

Directors:	**J L Green** Non-Executive Chairman **P T Claridge** Chief Executive Officer **J R A East** Executive Director **J S H Foster-Powell** Chief Financial Officer **C B Price** Non-Executive Director
Company Secretary:	**R-M Sexton**
Registered Office:	51-55 Gresham Street London EC2V 7HQ
Registered Number:	05347651
Auditors:	**Crowe Clark Whitehill LLP** Statutory Auditor St. Bride's House 10 Salisbury Square London EC4Y 8EH
Nominated Adviser:	**Grant Thornton LLP** 30 Finsbury Square London SW1Y 2YU
Broker:	**Merchant Securities Limited** 51-55 Gresham Street London EC2V 7HQ
Registrar:	**Capita Registrars** The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Solicitors:	**Nabarro LLP** Lacon House 84 Theobald's Road London WC1X 8RW **Speechly Bircham LLP** 6 St. Andrew Street London EC4A 3LX

Abbreviations:

MSG plc or Company or Group	Merchant Securities Group plc
MSGL	MSGL Limited
EWH	East, Worlidge Holdings Limited
MSL	Merchant Securities Limited
IDMSA	Dom Maklerski IDM Spółka Akcyjna
MCY	Merchant Cavendish Young Limited
MSH	Merchant Securities Holdings Limited
MSWM	Merchant Securities Wealth Management Limited
MS EBT	Merchant Securities Employee Benefit Trust

Merchant Securities

Chairman's Statement

Introduction

I am pleased to report that the Group continues to make very good progress. Results for the year to 31 March 2011 show revenue moving ahead by 10 per cent. to £8.40m and underlying profit before taxation increased by 34 per cent. to £1.12m compared to the previous year. Both our Private Client Wealth Management operations and our Investment Banking activities generated increased revenues over last year, and the Group's results for the year also benefited from a partial contribution from GT Independent Financial Advisers Limited ("GT"), the wealth management company which we acquired in February 2011.

The year saw significant changes. In line with our strategy to develop our presence in the wealth management sector, we acquired GT, which has added critical mass to our existing business. The addition of GT has doubled the Group's assets under advisory and discretionary management as well as bringing significant cross-selling opportunities. We have also added further range and depth to our investment banking activities over the year, expanding our equity research coverage and adding selectively to our sales team. Our move to new offices in the second quarter of the financial year, while incurring a non-recurring cost, has enabled us to consolidate our London operations more efficiently and also provides us with the space to accommodate future expansion.

The Group is now well-placed to continue to grow revenues and profits. The full benefits of the acquisition of GT have yet to be felt and while trading conditions for our investment banking activities remain demanding, our pipeline of work with publicly quoted and private companies is encouraging.

Financial Results

For the year to 31 March 2011, the Group generated revenues of £8.40m, which represents an increase of 10 per cent. on the prior year (2010: £7.61m). This result included a seven week contribution from GT, acquired in February 2011. Underlying profit before amortisation and non-recurring items rose by 34 per cent. to £1.12m (2010: £0.83m). Earnings per share on the same basis rose by 22 per cent. to 1.83p (2010: 1.50p). Non-recurring items totalled £0.60m (2010: £nil) and largely comprised the costs associated with our move to new offices in July 2010. Some of these costs are not allowable for tax purposes which has resulted in a higher than normal tax charge. After taking into account non-recurring items and amortisation of intangible assets, the statutory results show profit before taxation of £0.27m (2010: £0.64m) and earnings per share of 0.27p (2010: 1.09p).

The Group's balance sheet remains robust, with no borrowings and net cash balances at 31 March 2011 of £2.62m (31 March 2010: £3.06m). This is after satisfying the initial cash consideration for GT and the costs of the office move.

Review of Operations

Private Client Wealth Management

Our Private Client Wealth Management activities performed well over the year, generating a 9 per cent. rise in revenue to £4.40m (2010: £4.05m) over last year and an underlying profit before tax of £1.26m (2010: £0.84m), which represents an increase of 50 per cent. on 2010. These strong results reflect both organic growth and the benefits of Merchant Cavendish Young Limited, the private client wealth management company which we acquired in September 2009, which has integrated well and is delivering the results we hoped for at the time of its acquisition. In May 2010, it was particularly pleasing to see Merchant Cavendish Young ranked in the top 25 UK IFAs in an independent research report published by Private Client Practitioner magazine. Later in the year, in November 2010, our Private Client division was also awarded Best Advisory Service in The Daily Telegraph Wealth Management Awards 2010. The award was determined by public vote and reflects our commitment to delivering high service standards to our clients.

Chairman's Statement

In the last quarter of the financial year under review, we completed the acquisition of wealth management firm, GT, which now trades as Merchant Securities Wealth Management Limited. MSWM has significantly increased our funds under advisory and discretionary management and these now total c. £487 million, more than double the total at the same point last year, when funds under influence stood at £205 million. MSWM has also brought approximately 3,300 new private clients to the Group, increasing our total number of private clients to 7,500. Over time, there is excellent potential to offer additional services and products to MSWM's substantial client base and this will be a focus as we integrate the business with our existing operations.

We continued to create new products to offer to clients and during the year, launched five new managed funds, taking our total to fifteen. After the year end we strengthened the senior management team of the division with the appointment of a sales director.

Investment Banking

Our Investment Banking activities, which include institutional sales, research and execution and provide products and services to both publicly quoted and private companies, contributed revenues of £4.0m (2010: £3.6m) to the Group's result. As expected, these activities made an underlying loss of £0.1m after a full pro-rata allocation of central overheads in the year against the previous year's profit of £0.26m, reflecting the higher cost base as we expanded our teams. We were involved in a total of 23 transactions over the year, including four flotations: Suretrack Monitoring plc, Water Intelligence plc, Motive Television PLC and DEO Petroleum plc. As we previously reported, the restructuring of Norman Broadbent plc, which we led as Nominated Adviser and Broker, was shortlisted for the AIM Transaction of the Year at the 2010 AIM Awards, held in October 2010. Other notable transactions in the year included acting as Rule 3 adviser to ToLuna plc in relation to its £168 million recommended offer.

In line with our plans to develop our Investment Banking activities, we have expanded our teams both during the year and after the year end, making a number of new research and sales appointments. The result is that we start the new financial year with broader equity research covering five sectors, enhanced distribution and strengthened resource.

Board Changes and Staff

We are delighted to welcome Nigel Gurney to the Board as Finance Director as of 1 August 2011. Nigel has been working in the financial services industry at a senior level for the last seven years. Before joining the Group, he was Finance Director at WH Ireland Group plc, the stockbroking and securities business. Prior to this, Nigel was Financial Controller at Spencer House Capital Management LLP, the independent Asset Management partnership founded by Lord Rothschild and Richard Horlick (formerly CIO of Schroders). Nigel has also held senior management roles at Invicta Investment Management LLP, the London-based hedge fund and ORN Capital LLP, the hedge fund platform.

Nigel replaces John Foster-Powell, who, as we previously announced, will be leaving the Group in the autumn. We would like to thank John for his contribution to the Group and wish him well in his new ventures.

The Group's pleasing results reflect the talents and dedication of our staff and I would like to thank all of them for their efforts over the year, as we continue to pursue our expansion plans.

I would also formally like to mark the passing of Richard Crossley, our technical strategist, responsible for producing the highly respected and well-followed Mercantalyst daily commentary, whose untimely death in April 2011 was a shock to colleagues and friends alike. Richard excelled in his field and deservedly enjoyed a distinguished reputation. He is much missed by all.

Chairman's Statement

Outlook

The Group made very good progress over the financial year under review and the business base is stronger and more diversified than it was a year ago. We have made a very encouraging start to the current year, with the first quarter showing corporate finance fees, commission levels and trading revenues all well ahead of the same period last year. This strong start positions us well for the first half and looking further ahead, we hope to deliver an improvement in performance for the new financial year as a whole.

Our strategy to seek acquisitions which will enhance our existing activities remains in place and our strong balance sheet will help to support organic growth as well as further acquisitions.

I look forward to updating shareholders on the Group's development in due course.

John Green
Chairman

28 July 2011

Merchant Securities

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 2011.

Principal activities

The principal activities of the Group are the provision of institutional sales, research and trading, private client broking and investment management, corporate finance and corporate broking. These activities are all provided by Merchant Securities Limited (formerly Merchant John East Securities Limited). Following the acquisition of GT Independent Financial Advisors Limited in February 2011 the Group has significantly increased its activities in wealth management and as a result increased the Group's funds under management. The Group has three principal operating subsidiaries and is regulated by the Financial Services Authority (FSA).

The Group trades from its office in London and from branch offices in Guildford, Leeds, Manchester and Marlow. Marketing and servicing of the Group's clients are undertaken from these offices. The settlement, operations, research and strategic activities are centralised and operate from the London head office.

Review of the business and key financial performance indicators

The results for the year and the financial position of the Group are as shown in the financial statements on pages 14 to 39.

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 two key business activities of the Group can be expanded and can generate increased profitability in the future. Key financial performance indicators include revenue, funds under management 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 Statement of Comprehensive Income.

Other key performance indicators

The Group has continued to expand its core activities with the recruitment of key specialists. In the current climate the Group sees considerable scope for consolidation and is actively looking for acquisitions in all areas of its business.

Strategy and business objectives

The Group has restructured the business into two key areas of activity which are: Private Client Wealth Management and Investment Banking which results from the merger of 'institutional broking and research' and 'corporate finance and broking'.

The Group is actively seeking to expand by the acquisition of teams of brokers and smaller companies offering complementary services to allow the business to utilise its infrastructure effectively and increase the profitability of its existing trading activities while continuing to review opportunities for further expanding its core activities.

Dividends

No dividends were paid or proposed during the year.

Report of the Directors

Principal risks and uncertainties

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

The Group's risk management objectives and policies are outlined below and in note 20.

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 personnel risk, reputational risk, credit risk, liquidity risk and operational risk. Several high-level procedures are in place to enable all risks to be controlled. These include profit forecasts by business segment, monthly management accounts and comparisons against forecast, monthly meetings of the full Board of Directors, and more regular senior management meetings. The Risk Committee monitors and mitigates the principal risks facing the Group. The Risk Committee met nine times during the year and presented its findings to the Board.

The Group currently derives most of its income from activities on behalf of clients who typically hold assets and cash balances which are under our control or influence. Debts in respect of business activities are monitored by the finance department. Other risks, including operational and reputational risks, are under constant review by the full board at their monthly meetings.

The Group operates in the heavily regulated financial services sector. The Group monitors developments in regulation, assesses the impact on the business, and implements any changes that will be required to meet these requirements.

The Company does not take any positions for its own account. It trades for clients as agent only. Accordingly, the Company has no positional risk exposure, neither is it exposed to foreign exchange risk, interest rate risk nor any significant credit risk.

Directors

The directors of the Company and their interests in the issued ordinary share capital of the Company at the year end, were as follows:

	31 March 2011	31 March 2010
P T Claridge*	**2,735,528**	2,648,028
J R A East	**4,495,000**	4,495,000
J S H Foster-Powell**	**618,750**	600,000
J L Green***	**225,431**	225,431
C B Price	**416,009**	416,009

*87,500 of these shares are held by the Merchant Securities Employee Benefit Trust.

**18,750 of these shares are held by the Merchant Securities Employee Benefit Trust.

***82,574 of these shares are held by Ms Kathleen Green, wife of John L Green.

Report of the Directors

Employee benefit trust

The Group currently operates an Employee Benefit Trust, MS EBT, which administers the Company's share schemes. At 31 March 2011, the Trust held 1,350,000 ordinary shares (2010: 450,000 ordinary shares) in Merchant Securities Group plc for the benefit of employees.

Directors' emoluments

The emoluments of the directors of the Company for the year ended 31 March 2011 were as follows:

	Salary £000	Bonus £000	Benefits in kind £000	Pension Contributions £000	Total 2011 £000	Total 2010 £000
Executive Directors						
P T Claridge	150	70	3	–	**223**	152
J R A East	84	–	5	15	**104**	157
J S H Foster-Powell	115	15	4	–	**134**	118
Non-Executive Directors						
J L Green	34	–	–	–	**34**	28
C B Price	24	–	–	–	**24**	19
	407	85	12	15	**519**	474

Share options

At 31 March 2011, the following directors held share options in the Company:

	Options Number	Exercise price	Grant date	First possible exercise date*	Expiry date
P T Claridge	562,514	10p	09.09.2009	09.09.2010-09.09.2012	08.09.2019
P T Claridge	550,000	30p	23.07.2010	23.07.2011-22.07.2012	22.07.2020
J S H Foster-Powell	400,000	10p	09.09.2009	09.09.2010-09.09.2012	08.09.2019
J L Green	100,203	10p	09.09.2009	09.09.2010-09.09.2012	08.09.2019
C B Price	66,802	10p	09.09.2009	09.09.2010-09.09.2012	08.09.2019

*The above options vest over a period between 9 September 2009 and 23 July 2013.

On 23 July 2010, the Board approved the grant of 550,000 options at an exercise price of 30 pence per share over the Company's ordinary shares to Mr. Patrick Claridge, Chief Executive, under the terms of the Merchant Securities Group plc scheme.

Report of the Directors

Creditors payment policy

It is the Group's policy to pay stockbroking creditors on settlement day or when stock has been delivered, whichever is later, and to pay suppliers in accordance with agreed contractual terms. Amounts due to suppliers as at 31 March 2011 represent approximately 31 days credit based on the total amounts of goods and services invoiced by them during the year.

Political and charitable donations

The Group made no charitable or political donations during the year (2010: £nil).

Substantial shareholdings

At 30 June 2011, the following persons held three per cent. or more of the ordinary share capital of the Company:

Shareholder	Number of shares	Percentage held
Dom Maklerski IDM Spółka Akcyjna	8,000,000	15.58%
Henderson Global Investors	5,020,000	9.78%
John East	4,495,000	8.75%
Anthony Fabrizi	4,168,001	8.12%
Tim Wall	4,043,479	7.88%
Patrick Claridge	2,735,528	5.33%
David Worlidge	2,562,857	4.99%

Corporate governance

The Group is not bound by the provisions of the UK Corporate Governance Code on Corporate Governance issued in May 2010, but has voluntarily adopted those provisions which it considers most relevant.

The Board comprises three executive directors and two non-executive directors (both of whom have shareholdings and options over the shares of the Company). One of the non-executive directors acts as chairman.

The Group has arranged appropriate insurance cover in respect of legal action against its directors.

All directors are subject to re-election at the first Annual General Meeting after their appointment, and thereafter, one third of the directors are required to retire from office by rotation and seek re-election.

The Group has established various committees, including an Audit Committee, Remuneration Committee and a Nominations Committee. The non-executive directors sit on each of the committees and there are written terms of reference for each committee establishing their responsibilities.

Report of the Directors

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements. They have chosen to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and for the Company in accordance with UK GAAP.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the Group's state of affairs and of the profit or loss of the Group for that period. In order to comply with IFRS, in preparing those financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- present information including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when complying with specific requirements in IFRS to enable users to understand the impact of particular transactions and events on the Group's financial position and financial performance; and
- prepare the financial statements on the going concern basis unless it is inappropriate to assume that the Group and the companies within the Group will continue in business.

UK GAAP requires the directors to prepare financial statements for each financial year which give a true and fair view of the Company's state of affairs at the end of the year and of its profit or loss for the year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are responsible and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to assume that the Group and the companies within the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement as to disclosure of information to auditors

Each of the persons who were directors at the time at which this report was 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.

Report of the Directors

Auditors

In accordance with Section 489 of the Companies Act 2006 a resolution proposing the reappointment of Crowe Clark Whitehill LLP as auditors of the Company will be put to the shareholders at the Annual General Meeting. During the year the auditors changed their name from Horwath Clark Whitehill LLP to Crowe Clark Whitehill LLP.

By order of the Board

R-M Sexton
Company Secretary

28 July 2011

Merchant Securities

Independent Auditor's Report

to the members of Merchant Securities Group plc

We have audited the financial statements of Merchant Securities Group plc for the year ended 31 March 2011 which comprise the Consolidated Statement of Financial Position, the Company Balance Sheet, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statement of Cash Flow, the Consolidated Statement of Changes in Equity and the related notes numbered 1 to 46.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 auditor

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Directors' Report and Chairman's Statement to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2011 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- The Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Independent Auditor's Report

to the members of Merchant Securities Group plc

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

David Chitty
Senior Statutory Auditor

For and on behalf of
Crowe Clark Whitehill LLP
Statutory Auditor

St Bride's House
10 Salisbury Square
London EC4Y 8EH
United Kingdom

28 July 2011

Merchant Securities

Consolidated Statement of Comprehensive Income

for the year ended 31 March 2011

Continuing operations	Notes	Year ended 31 March 2011 £000	£000	Year ended 31 March 2010 £000	£000
Revenue	4		**8,401**		7,611
Cost of sales			**(908)**		(1,281)
Gross profit			**7,493**		6,330
General administrative expenses		**6,417**		5,513	
Amortisation of intangible assets	5,13	**243**		194	
Non-recurring items	6	**601**		–	
			(7,261)		(5,707)
Operating profit	8		**232**		623
Investment revenues	7		**45**		19
Finance costs	7		**(6)**		(2)
Profit before taxation			**271**		640
Taxation	10		**(145)**		(129)
Profit for the year attributable to equity holders of the Company			**126**		511
Revaluation of available for sale investments	15		**163**		–
Total comprehensive income for the year net of tax attributable to equity holders of the Company			**289**		511
Earnings per share					
Basic	11		**0.27p**		1.09p
Fully diluted	11		**0.23p**		0.97p

The profit for the year attributable to equity holders of the Company is as follows:

Underlying profit*		**1,115**		834
Amortisation of intangible assets	**243**		194	
Non-recurring items	**601**		–	
		(844)		(194)
		271		640
Taxation		**(145)**		(129)
Profit for the year attributable to equity holders of the Company		**126**		511

*Underlying profits are before amortisation and non-recurring items.

The notes on pages 18 to 39 form an integral part of these consolidated financial statements.

Merchant Securities

Consolidated Statement of Financial Position

as at 31 March 2011

	Notes	2011 £000	2011 £000	2010 £000	2010 £000
Non-current assets					
Goodwill	12		**3,415**		2,554
Intangible assets	13		**1,714**		623
Property, plant and equipment	14		**449**		137
Available-for-sale investments	15		**211**		–
Trade and other receivables	18		**100**		150
Deferred tax asset	23		**150**		12
			6,039		3,476
Current assets					
Trade and other receivables	18	**2,082**		1,249	
Cash and cash equivalents	19	**2,619**		3,141	
		4,701		4,390	
Current liabilities					
Trade and other payables	22	**(2,484)**		(1,129)	
Short-term borrowings		**–**		(76)	
		(2,484)		(1,205)	
Net current assets			**2,217**		3,185
Non-current liabilities					
Other liabilities	24		**(583)**		(228)
Deferred tax liabilities	23		**(9)**		(3)
			(592)		(231)
Total assets less liabilities			**7,664**		6,430
Equity					
Share capital	25		**3,317**		3,272
Share premium account			**12,656**		11,705
Other reserves	26		**(3,845)**		(3,845)
Revaluation reserve			**163**		–
Share-based payment reserve	27		**308**		287
Retained earnings			**(4,809)**		(4,935)
Employee benefit trust			**(126)**		(54)
Equity attributable to equity holders of the Company			**7,664**		6,430

These financial statements were approved by the Board of Directors and authorised for issue on 28 July 2011.

Signed on behalf of the Board of Directors

P T Claridge
Director

J S H Foster-Powell
Director

Registered No. 05347651

The notes on pages 18 to 39 form an integral part of these consolidated financial statements.

Merchant Securities

Consolidated Cash Flow Statement

for the year ended 31 March 2011

	Notes	2011 £000	2010 £000
Cash flows from operating activities			
Cash generated from operations	28	**778**	1,024
Interest received	7	**45**	19
Interest paid	7	**(6)**	(2)
Tax paid		**(77)**	–
Net cash generated from operating activities		**740**	1,041
Cash flows from investing activities			
Acquisition of subsidiary business		**(750)**	(60)
Purchase of property, plant and equipment	14	**(409)**	(15)
Proceeds from lease capital contribution		**200**	–
Purchase of available for sale investments		**(48)**	–
Cost of disposal of tangible fixed assets		**(8)**	–
Net cash used in investing activities		**(1,015)**	(75)
Cash flows from financing activities			
Loan to Employee Benefit Trust		**(181)**	(54)
Proceeds from the issue of shares (net of costs)		**10**	–
Net cash used in financing activities		**(171)**	(54)
Net (decrease)/increase in cash and cash equivalents		**(446)**	912
Cash and cash equivalents at beginning of year		**3,065**	2,153
Cash and cash equivalents at end of year		**2,619**	3,065

The notes on pages 18 to 39 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 March 2011

	Share capital £000	Share premium £000	Other reserves £000	Revaluation reserve £000	Share-based payment reserve £000	Retained earnings £000	Employee benefit trust £000	Total equity £000
Balance at 1 April 2009	3,272	11,705	(3,845)	–	292	(5,446)	–	**5,978**
Net profit for the year	–	–	–	–	–	511	–	**511**
Total comprehensive income	–	–	–	–	–	511	–	**511**
Purchase of Shares	–	–	–	–	–	–	(54)	**(54)**
Recognition of share-based payments	–	–	–	–	(5)	–	–	**(5)**
Balance at 31 March 2010	**3,272**	**11,705**	**(3,845)**	**–**	**287**	**(4,935)**	**(54)**	**6,430**
Movement in revaluation of available for sale investments	–	–	–	163	–	–	–	**163**
Net profit for the year	–	–	–	–	–	126	–	**126**
Total comprehensive income	–	–	–	163	–	126	–	**289**
Purchase of Shares	–	–	–	–	–	–	(181)	**(181)**
Movement on Employee benefit trust	–	–	–	–	–	–	109	**109**
Recognition of share-based payments	–	–	–	–	21	–	–	**21**
Acquisition cost	–	(15)	–	–	–	–	–	**(15)**
Issue of share capital	45	966	–	–	–	–	–	**1,011**
Balance at 31 March 2011	**3,317**	**12,656**	**(3,845)**	**163**	**308**	**(4,809)**	**(126)**	**7,664**

The notes on pages 18 to 39 form an integral part of these consolidated financial statements.

Merchant Securities

Notes to the Consolidated Financial Statements

for the year ended 31 March 2011

1 General information

Merchant Securities Group plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is shown on page 2.

The principal activities of the Group are the provision of investment services within the United Kingdom. These services include investment advice, execution, settlement and custody for domestic and foreign equities, equity derivatives, bonds, equity-linked structured products, collective investment schemes, the provision of dealing services to institutional and private clients, the provision of corporate finance advisory services and the raising of venture capital.

Having considered the guidance given in the document Going Concern and Liquidity Risk: Guidance for Directors of UK Companies issued in October 2009 by the Financial Reporting Council, the Directors are satisfied that it is appropriate to adopt the going concern basis when preparing the financial statements given the profitability and liquidity of the Group.

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 Consolidated Statement of Comprehensive Income.

2 Summary of significant accounting policies

The financial statements have been prepared in accordance with IFRS, as adopted by the European Union. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities at fair value through profit or loss.

Certain changes to IFRS will be applicable for the Group's accounts in future periods. To the extent that the Group has not adopted these early in the current financial statements, they will not affect the Group's reported profit or equity but they will affect disclosures.

As at the date of approval of these financial statements, the following standards and interpretations, relevant to the Group's operations, were in issue but not yet effective:

- IFRS 9 – Financial Instruments (not yet adopted by the EU)
- IFRS 10 – Consolidated Financial Statements
- IFRS 11 – Joint Arrangements
- IFRS 12 – Disclosure of Interests in other entities
- IFRS 13 – Fair Value measurement
- IAS24 – Related party disclosures (revised 2009)
- Amendment to IAS32 – classification of rights issue
- IFRIC 19 – Extinguishing financial liabilities with equity instruments
- Amendment to IFRIC 14 – Prepayments of Minimum Funding Requirement
- Improvements to IFRS issued May 2010
- Amendment to IFRS7 – Financial Instruments: Disclosures
- Amendment to IAS12 – Income Taxes

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

Notes to the Consolidated Financial Statements

for the year ended 31 March 2011

2 Summary of significant accounting policies (continued)

Basis of consolidation

The Group's financial statements consolidate the financial statements of the Company and all its subsidiaries as at 31 March 2011. Subsidiaries are entities that are directly or indirectly controlled by the Group. Control exists where the Group has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Consolidated Statement of Comprehensive Income.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. All intra-group transactions, balances, income and expenses have been eliminated on consolidation.

The income statement for 2010 has been restated to include the profit share accrual as part of general administrative expenses. The effect of the reinstatement in 2010 is as follows:

2010	Previously reported £000	Variance £000	Restated £000
General administrative expenses	5,087	426	5,513
Profit share accrual	426	(426)	–
	5,513	–	5,513

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 Statement of Comprehensive Income. Such impairment is permanent, as it is not permitted to be reversed in future periods.

Intangible assets

Intangible assets comprise trademarks, customer relationships and non-compete agreements. These assets are stated at their fair values at acquisition following an independent assessment. They are held at cost less amortisation and provisions for impairment, if any, and are amortised over their useful lives of three years to seven years.

Property, plant and equipment

Property, plant and equipment is 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 expected length of the lease
Computer hardware	3 to 4 years
Computer software	3 to 6 years
Furniture and fittings	10 years
Office equipment	4 years
Telephone equipment	5 years

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount.

2 Summary of significant accounting policies (continued)

Investments

Investments in securities are recognised and derecognised on trade date. Such investments are initially measured at cost, inclusive of transaction costs.

Investments are reported at fair value based on market prices if the investments are quoted on a recognised exchange, or based on other appropriate valuation techniques if unquoted. When assessing the value of warrants and options over shares, management considers the effect of exercise periods, "lock-in" arrangements, and other relevant clauses. Investments are classified as "held for sale" if management intends to dispose of them within a year. Otherwise, they are classified as "available for sale" and designated as non-current assets.

Available for sale investments

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets. They comprise listed and unlisted investments. Listed investments are valued using market values and unlisted investments by Directors' valuation.

After initial recognition, investments which are classified as available for sale are measured at fair value. Gains or losses on available for sale investments are recognised directly as a separate component of equity until the investment is sold, or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the Consolidated Statement of Comprehensive Income as a profit or loss for the period.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the Consolidated Statement of Comprehensive Income as part of other income. Dividends on available-for-sale equity instruments are recognised in the Consolidated Statement of Comprehensive Income as part of other income when the Group's right to receive payments is established.

Available for sale financial assets are reviewed at the balance sheet date for evidence of impairment. Any loss arising from impairment of these investments is recognised directly in equity for the period.

Trading investments

After initial recognition, investments which are classified as held for sale are categorised as trading investments, are measured at fair value and are recorded as current assets. Trading investments are reviewed at the balance sheet date for evidence of impairment. Any loss arising from impairment of investments is recognised directly in the Consolidated Statement of Comprehensive Income for the period.

Trade receivables

Trade receivables are financial assets with fixed or determinable payments; they are recognised at fair value less any provision for impairment. Such provision will be made when there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms.

Credit risk

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the broad and unrelated client base. Accordingly, the directors believe that there is no credit provision required in excess of the allowance for doubtful debts, refer note 18.

The Group has a policy of reviewing past due receivables from counterparties on a monthly basis and any receivables which are considered to be impaired are provided for.

Notes to the Consolidated Financial Statements

for the year ended 31 March 2011

2 Summary of significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Trade payables

Trade payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method.

Provisions

Provisions are recognised when the Group has a present obligation arising from a past event, and it is probable that the Group will need to settle the obligation. Provisions are recorded at the directors' best estimate of the amount needed to settle the obligation at the date of the balance sheet.

Deferred income tax

Full provision is made for deferred taxation in respect of timing differences which have arisen but not reversed at the balance sheet date, at the tax rates that are expected to apply in the years in which timing differences are expected to reverse, based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Timing differences are differences between the Group's taxable profits or losses, and its results as stated in the financial statements. Deferred taxation is measured on a non-discounted basis.

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

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

Equity instruments

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

Employee Benefit Trust

The Company has an Employee Benefit Trust which holds shares for the benefit of employees of the Group. The assets and liabilities of the Employee Benefit Trust ("EBT") have been consolidated in the Group financial statements. Any assets held by the EBT cease to be recognised on the Group balance sheet when the assets vest unconditionally with identified beneficiaries. The costs of purchasing own shares held by the EBT are shown as a deduction against equity. The proceeds from the sale of own shares held increase equity. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the Group Statement of Comprehensive Income.

Treasury shares

The costs of purchasing Treasury shares are shown as a deduction against equity. The proceeds from the sale of own shares held increase equity. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the Group income statement.

Notes to the Consolidated Financial Statements

for the year ended 31 March 2011

2 Summary of significant accounting policies (continued)

Income recognition

Revenue has been measured at the fair value of the consideration received or receivable and represents gross commissions and fees in the course of ordinary business, net of discounts, VAT and any other sales taxes. Commission from clients on investment services and dealing and execution services is recognised at the time those transactions are executed. Commission and fees from third parties are recognised when the relevant deals have been substantially completed. Fees payable by clients are levied twice yearly. Uninvoiced fees accruing to 31 March 2011 have been accounted for. Revenue represents the rendering of services to clients.

Interest is recognised as it accrues. Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker who is the Chief Executive and the management team for the relevant business segment.

Taxation

Taxation disclosed in the Consolidated Statement of Comprehensive Income 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 Statement of Comprehensive Income 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 Statement of Comprehensive Income 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 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 Statement of Comprehensive Income as they become payable.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Consolidated Statement of Comprehensive Income on a straight-line basis over the period of the lease.

Notes to the Consolidated Financial Statements

for the year ended 31 March 2011

3 Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, which are described in note 2, management has made the following judgements that have had a significant effect on the amounts recognised in the financial statements.

Goodwill impairment

The Group reviews goodwill annually to assess whether, in management's estimation, any impairment has been suffered. This review requires an estimation of the value of the cash-generating units to which goodwill has been allocated. Future cash flows from these units are estimated and discounted at an appropriate rate to arrive at the net present value.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense in the Consolidated Statement of Comprehensive Income.

The Group has reviewed the value of goodwill held at 31 March 2011 and concluded that there was no requirement to write down the carrying value of its goodwill as shown in note 12.

Trademarks and other intangible assets

Trademarks and other intangible assets are measured initially at purchase cost and amortised on a straight-line basis over their estimated useful lives, which is currently between three and five years.

The Group has reviewed the value of intangible assets held at 31 March 2011 and concluded that there was no requirement to write down the carrying value of its intangible assets as shown in note 13.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill arising on acquisition is allocated to cash-generating units. The recoverable amount of the cash-generating unit to which goodwill has been allocated is tested for impairment annually, or on such other occasions that events or changes in circumstances indicate that it might be impaired.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is land or buildings at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase. However, impairment losses relating to goodwill may not be reversed.

Notes to the Consolidated Financial Statements

for the year ended 31 March 2011

4 Revenue and gross profit by segment

The Group's results for the year ended 31 March 2011, all of which were generated within the United Kingdom, can be analysed by product as follows:

The board is the chief operating decision maker "CODM" for identifying the segments in reporting.

The Group is currently managed through two operating divisions – Private Client Wealth Management and Investment Banking. The principal activities of these two divisions are as follows:

- Private Client Wealth Management – the provision of advisory stockbroking, discretionary portfolio management and wealth management to individuals, trusts, pension funds, charities and companies.
- Investment Banking – institutional sales, research, corporate finance and broking for small to mid-cap UK listed companies and private equity fundraising.

Sales between units are carried out on an arm's length basis. Revenue reported below represents revenue from external customers.

	2011 £000	2010 £000
Revenue		
Private Client Wealth Management	**4,398**	4,048
Investment Banking	**4,003**	3,563
	8,401	7,611
Profit/(loss) before tax		
Private Client Wealth Management	**1,260**	842
Investment Banking	**(145)**	(8)
Underlying profit	**1,115**	834
Amortisation	**(243)**	(194)
Non-recurring costs	**(601)**	–
	271	640
Total assets – Group	**10,740**	7,866
Total liabilities – Group	**3,076**	1,436

The Group does not allocate its balance sheet between business segments. There are no transactions with an external customer which exceeds 10 per cent. of revenue.

Notes to the Consolidated Financial Statements

for the year ended 31 March 2011

5 Particular administrative expenses

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

	Notes	2011 £000	2010 £000
Amortisation of intangibles	13	**243**	194
Non-recurring items		**601**	–
Severance Payments	9	**38**	–
		882	194

6 Non-recurring items

During the year the company merged its operations and moved from two separate offices to one new office. The non-recurring costs primarily represent the costs of moving, surrendering the lease on one property, continuing the rental costs of another to expiry while vacant and incurring the rent on a new property whilst it was being fitted out.

7 Investment revenue and finance costs

Investment revenues comprise:

	2011 £000	2010 £000
Interest receivable in respect of Group company bank accounts	**30**	17
Other interest receivable	**15**	2
	45	19

Finance costs comprise:

	2011 £000	2010 £000
Interest payable	**6**	2

8 Operating profit for the year

The operating profit for the year is stated after charging:

	2011 £000	2010 £000
Auditors' remuneration – auditing of financial statements pursuant to legislation	**36**	30
Auditors' remuneration – other services relating to taxation	**2**	2
Operating leases – land and buildings	**278**	240
Operating leases – machinery	**29**	29
Depreciation of property, plant and equipment	**126**	163
Amortisation of intangible assets	**243**	194
Share-based payments charge/(credit)	**21**	(5)

Notes to the Consolidated Financial Statements

for the year ended 31 March 2011

9 Staff costs

Directors' remuneration

	2011 £000	2010 £000
Aggregate emoluments (excluding pension contributions and short-term benefits)	**492**	440
Highest paid director (included within the above)	**220**	150

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 1 (2010: 1). During the year £15,000 (2010: £26,000) 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

	2011 £000	2010 £000
Short-term benefits (health care, dental care and subsidised gym membership)	**12**	8
Long-term benefits (life assurance, critical illness cover and income protection)	**9**	5
	21	13

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)

	2011 £000	2010 £000
Wages and salaries (including commission and bonuses)	**3,900**	3,753
Social security costs	**471**	433
Termination payments	**38**	–
	4,409	4,186

Staff numbers

	2011 Number	2010 Number
Directors	**5**	5
Others	**63**	38
The average number of employees (including directors) during the year was:	**50**	43

Pension contributions

During the year an expense of £109,000 (2010: £111,000) was recorded in the Consolidated Statement of Comprehensive Income in respect of retirement benefits for staff (including directors) accruing under money purchase pension schemes.

Notes to the Consolidated Financial Statements

for the year ended 31 March 2011

10 Taxation

Analysis of the tax charge

The tax charge/(credit) is based on the results for the year and comprises:

	2011 £000	2010 £000
UK corporation tax	**277**	156
Deferred tax (see below)	**(132)**	(27)
	145	129

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

Corporation tax charge

	2011 £000	2010 £000
Based on taxable profit for the year:	**271**	640
UK corporation tax – current year at 28%	**76**	179
Effects of:		
Losses utilised in the year and not previously recognised	**(72)**	(124)
Adjustments in respect of prior periods	**84**	2
Non-deductible expenses	**64**	27
Non-deductible expenses – non-recurring capital items	**70**	–
Amortisation of intangible assets	**68**	54
Other adjustments	**(13)**	18
	277	156

Deferred tax credit

Deferred tax resulting from the origination and reversal of temporary differences:

	2011 £000	2010 £000
On excess depreciation over capital allowances	**18**	(27)
On losses brought forward	**(97)**	–
On reserve for share based payments	**(53)**	–
	(132)	(27)

There are trading losses available to carry forward of approximately £375,000 (2010: £631,000).

Notes to the Consolidated Financial Statements

for the year ended 31 March 2011

11 Earnings per share

Basic earnings per share are based on the post-tax profit for the year of £126,000 (2010: £511,000) and on 47,510,214 ordinary 1p shares (2010: 46,897,270) being the weighted average number of shares in issue during the year.

The effect of all potential ordinary shares under option is dilutive. Details of the share options issued which could be dilutive in the future are set out in note 27.

Calculations are as follows:

Earnings for the purpose of basic and diluted earnings per share	2011 £000	2011 £000	2010 £000	2010 £000
Net profit attributable to equity holders of MSG plc		**126**		511
Amortisation of intangible assets	**243**		194	
Non-recurring costs	**601**		–	
Tax effect on non-recurring costs	**(98)**		–	
Expenses added back		**746**		194
Underlying profit after tax*		**872**		705

Number of shares	2011	2010
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**47,510,214**	46,897,270
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**55,330,244**	52,445,032

Earnings per share (EPS)	2011	2010
Basic EPS based on profit attributable to equity holders	**0.27p**	1.09p
Fully diluted EPS based on profit attributable to equity holders	**0.23p**	0.97p
Underlying earnings per share based on the underlying profit		
Basic EPS after adding back amortisation of intangible assets, non-recurring costs and related tax	**1.83p**	1.50p
Fully diluted EPS after adding back amortisation of intangible assets, non-recurring costs and related tax	**1.58p**	1.34p

*Underlying profits are before amortisation and non-recurring costs.

Notes to the Consolidated Financial Statements

for the year ended 31 March 2011

12 Goodwill

	2011 £000	2010 £000
Cost		
At 1 April	**5,600**	5,600
Recognised on acquisition of MSWM	**861**	–
At 31 March	**6,461**	5,600
Impairment		
At 1 April and **31 March**	**3,046**	3,046
Net Book Value		
At 31 March	**3,415**	2,554

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. Goodwill of £2,389,000 (2010: £1,528,000) and £1,026,000 (2010: £1,026,000) has been allocated to the Private Client Wealth Management and Investment Banking cash generating units respectively.

The carrying amount of the segments has been reduced to their recoverable amount through recognition of an impairment loss against goodwill (refer to note 4). The impairment charge arose due to the change in market conditions during 2009. This charge has been included in the Consolidated Statement of Comprehensive Income.

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units ("CGUs") identified according to operating segment. Impairment of goodwill has been allocated to the following cash generating units: Private Client Wealth Management £nil (2010:£nil) and Investment Banking £nil (2010: £nil).

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. A discount rate of 9 per cent. per annum has been assumed throughout the period.

Notes to the Consolidated Financial Statements

for the year ended 31 March 2011

13 Intangible assets

Intangible assets represent externally acquired trademarks, customer relationships and non-compete agreements.

	2011 £000	2010 £000
Cost		
At 1 April	**1,644**	1,389
Recognised on acquisition of MCY	**–**	255
Recognised on acquisition of MSWM	**1,334**	–
At 31 March	**2,978**	1,644
Amortisation		
At 1 April	**374**	180
Charge for the year	**243**	194
At 31 March	**617**	374
Impairment		
At 1 April and **31 March**	**647**	647
Net Book Value		
At 31 March	**1,714**	623

Impairment tests for intangible assets

The Group has reviewed the carrying value of intangible assets in relation to trademarks, customer relationships and non-compete agreements acquired and has determined that there would be no requirement to write down the carrying value of its intangible assets (2010: £nil).

Notes to the Consolidated Financial Statements

for the year ended 31 March 2011

14 Property, plant and equipment

	Leasehold property improvements £000	Computer hardware & software £000	Furniture & fittings £000	Office equipment £000	Telephone equipment £000	Total £000
Cost						
At 1 April 2009	101	382	88	110	54	73
Acquisition of subsidiary MCY	–	–	–	46	–	46
Additions	–	14	–	–	1	15
At 31 March 2010	**101**	**396**	**88**	**156**	**55**	**796**
At 1 April 2010	101	396	88	156	55	796
Acquisition of subsidiary MSWM	10	58	79	5	14	166
Additions	238	57	87	13	14	409
Disposals	(101)	(190)	(76)	(6)	(27)	(400)
At 31 March 2011	**248**	**321**	**178**	**168**	**56**	**971**
Depreciation						
At 1 April 2009	51	273	58	38	40	460
Acquisition of subsidiary MCY	–	–	–	36	–	36
Charge for the year	32	90	19	19	3	163
At 31 March 2010	**83**	**363**	**77**	**93**	**43**	**659**
At 1 April 2010	83	363	77	93	43	659
Acquisition of subsidiary MSWM	5	42	67	4	12	130
Charge for the year	48	38	14	23	3	126
Disposals	(97)	(190)	(75)	(5)	(26)	(393)
At 31 March 2011	**39**	**253**	**83**	**115**	**32**	**522**
Net book value						
At 31 March 2011	**209**	**68**	**95**	**53**	**24**	**449**
At 31 March 2010	18	33	11	63	12	137

Notes to the Consolidated Financial Statements

for the year ended 31 March 2011

15 Investments

Non-current investments

	2011 £000	2010 £000
Investments available for sale at start of year at cost	–	134
IFRS revaluation adjustment brought forward	–	(134)
Investments available for sale at start of year at fair value	–	–
Investments available for sale acquired at cost	48	–
Revaluation at year end	163	–
At 31 March	**211**	–

The Group holds a number of warrants and options over shares in various companies, some unlisted, and others listed on AIM. 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 and warrants 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

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

The market value of the investments held at 31 March 2011 was £221,000 (2010: £149,000).

16 Group companies

MSG plc is the legal parent company. In the opinion of the directors, there is no ultimate controlling party of MSG plc. The subsidiary undertakings of Merchant Securities Group plc and their countries of incorporation are:

	Country of incorporation	Principal activity	Class of shares held	Percentage of shares held
Merchant Securities Limited*	England & Wales	Institutional and private client stockbroking, Corporate Finance advice, raising capital and listing companies	Ordinary	100%
Merchant Securities Wealth Management Limited	England & Wales	Wealth Management	Ordinary	100%
Merchant Cavendish Young Limited	England & Wales	Wealth Management	Ordinary	100%
Merchant Securities Holdings Limited	England & Wales	Dormant Holding Company	Ordinary	100%
East Worlidge Holdings Limited	England & Wales	Dormant Holding Company	Ordinary	100%
MSGL Limited*	England & Wales	Dormant Company	Ordinary	100%
Merchant Securities (Nominees) Limited*	England & Wales	Dormant Company	Ordinary	100%
John East & Partners Limited*	England & Wales	Dormant Company	Ordinary	100%
Vestry Nominees Limited*	England & Wales	Dormant Company	Ordinary	100%
GT Independent Financial Advisers Limited*	England & Wales	Dormant Company	Ordinary	100%

*Shareholding held indirectly.

Notes to the Consolidated Financial Statements

for the year ended 31 March 2011

17 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are accordingly not disclosed.

The financial statements of the parent company include amounts attributable to subsidiaries. These amounts have been disclosed in aggregate in the relevant notes to the financial statements and in detail in the following table:

	Amounts owed by related parties		Amounts owed to related parties	
	2011 £000	2010 £000	2011 £000	2010 £000
MSGL	**–**	–	**1,759**	1,281
MSL	**–**	–	**600**	1,102
MCY	**133**	90	**–**	–
EWH	**–**	–	**68**	68
MSH	**–**	–	**359**	359
MSEBT	**126**	54	**–**	–
	259	144	**2,786**	2,810

The only effect of related party transactions on the Consolidated Statement of Comprehensive Income, which have all been eliminated on consolidation, was in respect of management charges.

The Company received a management fee from MSL of £320,000 (2010: £nil). The parent company paid a management charge to MSGL during the year of £nil (2010: £173,000) and MSL during the year of £nil (2010: £87,000).

The Group currently operates an Employee Benefit Trust, MS EBT, which administers the Company's Employee Benefit Trust. At 31 March 2011, the Trust held 1,350,000 ordinary shares (2010: 450,000 ordinary shares) in Merchant Securities Group plc for the benefit of employees. The shares have been recognised within Equity attributable to equity holders of the Company at 31 March 2011 as Employee Benefit Trust shares.

18 Trade and other receivables

Amounts falling due within one year

	2011 £000	2010 £000
Receivable from counterparties	**766**	376
Less provision for impairment of receivables from counterparties	**(120)**	(83)
Other receivables	**132**	63
Prepayments and accrued income	**1,291**	874
Corporation tax receivable	**13**	19
	2,082	1,249

Within trade and other receivables the largest debtor represents 15 per cent. (2010: 15 per cent.) of the amounts outstanding at the balance sheet date. The maximum exposure to credit risk from trade and other receivables is represented by the above amounts. The Group has a policy of reviewing all receivables from counterparties which are overdue and providing against all such receivables as deemed appropriate by management. The Group considers all other receivables as being of good credit quality.

Amounts falling due after more than one year

	2011 £000	2010 £000
Other receivables	**100**	150

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

Notes to the Consolidated Financial Statements

for the year ended 31 March 2011

19 Cash and cash equivalents

Cash and cash equivalents consist of the Group's own cash at bank only.

20 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 personnel and reputational risks. Secondary risks are credit risk, liquidity risk and operational risk. Several high-level procedures are already in place to enable all risks to be 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. The Risk Committee monitors and mitigates the principal risks facing the Group. The Risk Committee meets at least quarterly and presents its findings to the Board and to the Audit Committee.

The risk of a private client defaulting is mitigated by the Group's right to dispose of clients' positions in the case of default. The credit risk associated with the cash is limited as the counterparties are banks with high credit ratings assigned by international credit-rating agencies. Market counterparties are all regulated entities in major financial markets.

The Company's principal business risk arises from the fact that an element of income is linked to transaction volumes and market activity which has a direct impact on commission and fee income. The directors have taken steps to ensure that the Group has a diversified product range which helps to shield it from lower transaction volumes whilst maintaining the operational gearing effect of the business when volumes increase.

Debts in respect of business activities are monitored by the finance department. Other risks, including operational, reputational and legal risks are under constant review by the subsidiary boards and executive directors.

The Group aims to fund its expansion plans mainly from existing cash balances without making use of bank loans or overdraft facilities.

The Group does not take positions for its own account. It trades for clients as agent only. Accordingly, the Group has no positional risk exposure, neither is it exposed to foreign exchange risk, interest rate risk nor any significant credit risk.

21 Capital risk management

The Group manages its capital (defined as share capital and reserves) so that the regulated subsidiaries comply with the requirements of the Financial Services Authority as well as ensuring that their capital base is adequate to cover the risks in their business as set out in the Internal Capital Adequacy Assessment Process document.

The Group's objectives when managing capital are to ensure that it has sufficient capital to support its regulated business, to maximise shareholder value and to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Group has complied with the capital requirements as set out by the Financial Services Authority.

The Group has no borrowings and cash and cash equivalents consist of the groups own cash at bank only.

Notes to the Consolidated Financial Statements

for the year ended 31 March 2011

22 Trade and other payables

	2011 £000	2010 £000
Amounts owed to clients and other counterparties	**487**	132
Other taxes and social security	**296**	130
Accruals and deferred income	**1,071**	858
Other payables	**401**	9
Corporation tax payable	**229**	–
	2,484	1,129

The directors consider that the above amounts are stated at their fair value. All trade and other payables are unsecured and repayable on demand/at short notice. The Group has a policy of paying creditors as they fall due in accordance with the credit terms of its suppliers.

23 Deferred tax assets and liabilities

Deferred tax assets

	2011 £000	2010 £000
On losses carried forward	**97**	–
Excess of written down values over book values	**–**	12
On share based payments	**53**	–
	150	12

Deferred tax assets have been recognised on the timing of share based payments of £188,000 and trading losses carried forward of £375,000.

Deferred tax liabilities

	2011 £000	2010 £000
Excess of book values over written down values	**6**	–
Movement in other differences	**3**	3
	9	3

24 Other liabilities – non current

	2011 £000	2010 £000
Deferred consideration from the acquisition of MCY	**145**	228
Deferred consideration from the acquisition of MSWM	**300**	–
Lease capital contribution	**138**	–
	583	228

The deferred consideration from the acquisition of MCY is payable to the former shareholders of the company. The timing of the payment of deferred consideration is uncertain because it is dependent on the achievement of future milestones. It is estimated that remaining balance will be paid evenly over the next three years. Discounting the deferred consideration is not material.

The deferred consideration from the acquisition of MSWM is payable to the former shareholders of the company (refer note 30) payable over three years depending on revenue targets being met.

During the year MSL received a contribution for fit out works at Gresham Street for signing the new six year lease. The contribution is released to the profit and loss account over the life of the lease.

Notes to the Consolidated Financial Statements

for the year ended 31 March 2011

25 Called up share capital

Authorised

The authorised share capital of the Company consists of an unlimited number of ordinary shares with a nominal value of 1 pence each and deferred shares with a nominal value of 9 pence each.

Called up, allotted and fully paid	2011 £000	2010 £000
51,347,872 1p Ordinary shares	**514**	469
31,147,270 9p Deferred shares	**2,803**	2,803
	3,317	3,272

The deferred shares have no voting rights nor any entitlement to any dividends nor to attend general meetings. The Board intends to apply to the High Court at the appropriate time for the deferred shares to be cancelled.

26 Other reserves

Other reserves of £3,845,000 (2010: £3,845,000) arise as a result of applying the acquisition method of accounting to a substantial acquisition completed in May 2006 prior to the Company being admitted to trading on AIM in October 2006.

27 Share based payments

The Group runs two equity-settled share based option schemes, an Enterprise Management Incentives ("EMI") scheme and an Executive Share Option Scheme ("EXSOS"). Options expire if the director or employee leaves the Group before exercise or if the options remain unexercised after the exercise period has lapsed.

The Group recognised a charge of £21,000 (2010: Credit £5,000) related to equity-settled share based payment transactions. The corresponding equity debit/credit has been allocated to the share-based payment reserve. No deferred tax charge or credit has been recognised.

(a) EMI Scheme

At 31 March 2011 the following options have been granted and remain outstanding in respect of ordinary shares of 1p in the Company under the Company's EMI scheme.

Details of the share options granted are as follows:

Dates of grant	3 June 2010 – 31 Mar 2011	9 Sep 2009	20 Nov 2008	24 Aug 2007	30 June 2006 – 30 Oct 2006
Exercisable	6 Sep 2010 – 30 Mar 2021	9 Sep 2009 – 8 Sep 2019	23 April 2010 – 19 Nov 2018	24 Aug 2009 – 8 Oct 2017	30 June 2008 – 29 Oct 2016
Number of shares	2,049,194	3,640,058	716,083	195,000	501,001
Exercise price per share	19.00p-30.00p	10p	15.00p-25.00p	36.50p	29.94p
Fair value per share	4.07p-6.89p	0.39p	0.83p-1.15p	8.41p	0.5p-23.56p

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

Share price at date of grant	19.0p-23.5p	7.25p	7.00p	36.50p	14.97p-50.00p
Expected life	3 years	2 years	2.5 years	2.5 years	2.18-2.5 years
Expected volatility	40%	25%	67.4%	29.9%	29.9%
Risk free rate	2.0%-2.5%	3.00%	3.62%	4.08%	4.68%
Expected dividend yield	nil	nil	nil	nil	nil

27 Share based payments (continued)

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

EMI Share option scheme	2011 Number of shares	2011 Weighted average exercise price	2010 Number of shares	2010 Weighted average exercise price
1 April	**5,560,062**	**14.29p**	4,184,690	28.11p
Granted	**2,749,194**	**25.81p**	3,991,078	10.00p
Exercised	**(102,776)**	**10.00p**	–	–
Forfeited	**(1,105,144)**	**21.78p**	(26,700)	32.40p
Waived	**–**	**–**	(2,589,006)	28.68p
31 March	**7,101,336**	**17.65p**	5,560,062	14.29p
Exercisable	**2,659,950**	**15.70p**	2,176,027	18.52p

(b) EXSOS Scheme

At 31 March 2011, the following options have been granted and remain outstanding in respect of ordinary shares of 1p in the Company under the Company's EXSOS scheme.

Details of the share options granted are as follows:

Dates of grant	23 July 2010	9 Sep 2009	24 Aug 2007	30 June 2006
Exercisable	23 July 2011 – 22 July 2020	9 Sep 2010 – 8 Sep 2019	24 Aug 2009 – 23 Aug 2017	30 June 2008 – 29 June 2016
Number of shares	471,806	167,005	70,000	167,016
Exercise price per share	23.50p-30.00p	10.00p	36.50p	29.94p
Fair value per share	3.98p-4.99p	0.39p	8.41p	0.5p

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

Share price at date of grant	23.50p	7.25p	36.50p-38.50p	14.97p
Expected life	1-3 years	2 years	2.5 years	2.5 years
Expected volatility	40%	25%	29.9%	29.9%
Risk free rate	2.50%	3.00%	4.08%-4.57%	4.68%
Expected dividend yield	nil	nil	nil	nil

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

EXSOS Share option scheme	2011 Number of shares	2011 Weighted average exercise price	2010 Number of shares	2010 Weighted average exercise price
1 April	**404,021**	**22.83p**	1,050,473	33.13p
Granted	**471,806**	**29.71p**	167,005	10.00p
Waived	**–**	**–**	(813,457)	33.49p
31 March	**875,827**	**26.54p**	404,021	22.83p
Exercisable	**308,796**	**27.47p**	292,684	27.72p

Notes to the Consolidated Financial Statements

for the year ended 31 March 2011

28 Cash generated from operations

	Year ended 31 March 2011 £000	Year ended 31 March 2010 £000
Operating profit for the year	**232**	623
Adjustments for:		
Depreciation	**126**	163
Amortisation of intangible assets	**243**	194
Share based payment expense/(credit)	**21**	(5)
Changes in working capital:		
Increase in receivables	**(840)**	(353)
Increase in payables	**996**	402
Net cash inflow from operating activities	**778**	1,024

29 Financial commitments

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

	Land and buildings		Other	
	2011 £000	2010 £000	2011 £000	2010 £000
Within one year	**257**	179	**29**	29
Between one and five years	**1,000**	318	**27**	55
More than five years	**415**	–	**–**	–
	1,672	497	**56**	84

Notes to the Consolidated Financial Statements

for the year ended 31 March 2011

30 Acquisition of MSWM

On 9 February 2011, MSG plc acquired the entire share capital of MSWM (formerly GT Independent Financial Advisors Limited) for a cash consideration of £750,000, £1 million satisfied by the issue of ordinary shares in the Company, deferred consideration of £279,000 and further deferred performance consideration estimated to be £300,000. The transaction has been accounted for using the purchase method as prescribed by IFRS 3 Business Combinations.

Net assets acquired:	Book value £000	Adjustments £000	Fair value £000
Property, plant and equipment	37	–	37
Cash and Bank	156	–	156
Trade and other receivables	224	(15)	209
Trade and other payables	(257)	–	(257)
Liabilities due within more than on year	(11)	–	(11)
Goodwill	–	861	861
Intangible asset	–	1,334	1,334
	149	**2,180**	**2,329**

Consideration paid:	
Cash	750
Deferred cash payment	279
Estimated deferred consideration	300
Shares	1,000
	2,329

Net cash outflow arising on acquisition:	
Cash consideration paid	750
Cost of acquisition	103
Cash and cash equivalents	–
	853

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

	Fair value £000
Customer relationships	**1,334**

In the year ended 31 March 2011 MSWM contributed £174,000 to the Group's revenues as set out in the Consolidated Statement of Comprehensive Income. There was no material impact on the profit before tax in the year.

Deferred consideration comprises an entitlement of the former shareholders of MSWM to performance payments dependent on the attainment of certain revenue targets and is payable up to 50% in shares in the acquirer at the company's discretion.

Merchant Securities

Company Balance Sheet

as at 31 March 2011

	Notes	2011 £000	2011 £000	2010 £000	2010 £000
Fixed assets					
Investments	32		**9,692**		7,342
			9,692		7,342
Assets due after more than one year					
Deferred tax asset	34		**97**		–
Subordinated loan	34		**600**		600
Current assets					
Debtors: amounts due within one year	35	**302**		199	
Investments	32	**211**		–	
Cash at bank and in hand		**390**		1,000	
		903		1,199	
Creditors: amounts falling due within one year	36	**(3,251)**		(2,828)	
Net current liabilities			**(2,348)**		(1,629)
Creditors: amounts falling due after more than one year	36		**(445)**		(228)
Total assets less liabilities			**7,596**		6,085
Capital and reserves					
Called up share capital	38		**3,317**		3,272
Share premium account	40		**12,656**		11,705
Revaluation reserve			**163**		–
Share-based payment reserve	42, 45		**308**		287
Profit and loss account	41		**(8,848)**		(9,179)
Equity shareholders funds	39		**7,596**		6,085

These financial statements were approved by the Board of Directors and authorised for issue on 28 July 2011.

Signed on behalf of the Board of Directors

J S H Foster-Powell
Director

Registered No. 05347651

The notes on pages 42 to 48 form an integral part of these consolidated financial statements.

Merchant Securities

Company Cash Flow Statement

for the year ended 31 March 2011

	Notes	2011 £000	2010 £000
Net cash inflow from operating activities	43	**135**	1,781
Returns on investment and servicing of finance			
Interest received		**22**	5
Dividends received from subsidiaries		**–**	478
Purchase of investments		**(48)**	–
Profit on disposal of investments		**124**	–
Net cash inflow from returns on investment and servicing of finance		**98**	483
Taxation			
Capital expenditure and financial investment			
Subordinated loan to MSL		**–**	(600)
Redemption of subordinated loan to MSGL		**–**	600
Net cashflow from capital expenditure and financial investment		**–**	–
Acquisitions and disposals			
Purchase of investments in subsidiaries		**(750)**	(1,760)
Cost of acquisition		**(103)**	(60)
Net cash outflow from acquisitions and disposals		**(853)**	(1,820)
Financing			
Proceeds from the issue of share capital (net of issue costs)		**10**	–
Net cash inflow from financing		**10**	–
Net (decrease)/increase in cash/intercompany balances in the year		**(610)**	444

The notes on pages 42 to 48 form an integral part of these consolidated financial statements.

Notes to the Financial Statements of the Company

for the year ended 31 March 2011

31 Accounting policies

Basis of presentation

Merchant Securities Group 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 2006. As permitted by the Act, the separate financial statements have been prepared in accordance with UK Generally Accepted Accounting Principles (UK GAAP).

Having considered the guidance given in the document Going Concern and Liquidity Risk: Guidance for Directors of UK Companies issued in October 2009 by the Financial Reporting Council, the Directors are satisfied that it is appropriate to adopt the going concern basis when preparing the financial statements given the profitability and liquidity of the Group.

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 408 of the Companies Act 2006 not to present its own profit and loss account. There are no recognised gains and losses other than those included in the profit and loss account. The profit for the year is set out in note 39 of the financial statements.

Turnover

Turnover represents services supplied, exclusive of value added tax. All of the Company's turnover originated in the United Kingdom.

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.

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.

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.

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 based payment reserve as appropriate.

Notes to the Financial Statements of the Company

for the year ended 31 March 2011

32 Investments

Fixed asset investments

	2011 £000	2010 £000
Net book value at 1 April	**7,342**	5,300
Additions at fair value	**2,350**	2,042
Net book value at 31 March	**9,692**	7,342

The subsidiary undertakings of Merchant Securities Group plc and their countries of incorporation are:

	Country of incorporation	Principal activity	Class of shares held	Percentage of shares held
Merchant Securities Limited*	England & Wales	Institutional and private client stockbroking, Corporate Finance advice, raising capital and listing companies	Ordinary	100%
Merchant Securities Wealth Management Limited	England & Wales	Wealth Management	Ordinary	100%
Merchant Cavendish Young Limited	England & Wales	Wealth Management	Ordinary	100%
Merchant Securities Holdings Limited	England & Wales	Dormant Holding Company	Ordinary	100%
East Worlidge Holdings Limited	England & Wales	Dormant Holding Company	Ordinary	100%
MSGL Limited*	England & Wales	Dormant Company	Ordinary	100%
Merchant Securities (Nominees) Limited*	England & Wales	Dormant Company	Ordinary	100%
John East & Partners Limited*	England & Wales	Dormant Company	Ordinary	100%
Vestry Nominees Limited*	England & Wales	Dormant Company	Ordinary	100%
GT Independent Financial Advisers Limited*	England & Wales	Dormant Company	Ordinary	100%

*Shareholding held indirectly.

During the year, the company acquired 100 per cent. of the ordinary shares of Merchant Securities Wealth Management Limited. Details of this acquisition are included at note 30 of the consolidated financial statements.

Current asset investments

	2011 £000	2010 £000
At 1 April	**–**	–
Additions at cost	**48**	–
Revaluation of investments	**163**	–
Net book value at 31 March	**211**	–

The market value of the investments held at 31 March 2011 was £217,000 (2010: £105,000). Owing to the lack of liquidity in the investments' the directors have not recognised all the investments on the balance sheet.

Notes to the Financial Statements of the Company

for the year ended 31 March 2011

33 Directors remuneration

Refer to note 9 of the consolidated financial statements.

The Company had no employees except for the directors of the Company.

34 Assets due after more than one year

	2011 £000	2010 £000
Subordinated loan to Merchant Securities Limited	**600**	600
Deferred tax asset	**97**	–
	697	600

The subordinated loan of £600,000 to Merchant Securities Limited is for a term of five years, can only be repaid following approval from the FSA and bears discretionary interest at the rate applicable to short dated UK government securities.

The deferred tax asset arises from trading losses carried forward of £375,000.

35 Debtors

	2011 £000	2010 £000
Owed by subsidiary undertakings	**259**	90
Prepayments	**3**	3
Corporation tax	**–**	23
Other debtors	**40**	83
	302	199

36 Creditors

	2011 £000	2010 £000
Amounts falling due within one year		
Trade creditors	**2**	–
Amounts owed to subsidiary undertakings	**2,787**	5
Accruals and deferred income	**101**	2,810
Other creditors	**361**	13
	3,251	2,828

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

Amounts falling due after more than one year

Refer to note 24 of the consolidated financial statements.

Notes to the Financial Statements of the Company

for the year ended 31 March 2011

37 Tax on profit/(loss) on ordinary activities

Analysis of tax credit in the year

	2011 £000	2010 £000
Current tax (see note below)		
UK corporation tax – current year	**–**	–
UK corporation tax – adjustments in respect of prior years	**(23)**	–
Tax on profit/(loss) on ordinary activities	**(23)**	–
Factors affecting tax charge for the year		
Profit/(loss) on ordinary activities before taxation	**256**	(330)
Profit/(loss) on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 28 per cent. (2010: 28 per cent.)	**72**	(92)
Effects of:		
Losses surrendered to group companies	**–**	94
Losses carried forward/utilised	**(72)**	(2)
Adjustment to tax charge in respect of previous year	**(23)**	–
Current tax liability	**(23)**	–

There are trading losses available to carry forward of approximately £375,000 (2010: £631,000).

38 Called up share capital

Authorised

The authorised share capital of the Company consists of an unlimited number of ordinary shares with a nominal value of 1 pence each and deferred shares with a nominal value of 9 pence each.

Called up, allotted and fully paid

	2011 £000	2010 £000
51,347,872 1p Ordinary shares	**514**	469
31,147,270 9p Deferred shares	**2,803**	2,803
	3,317	3,272

The deferred shares have no voting rights nor any entitlement to any dividends nor to attend general meetings. The Board intends to apply to the High Court at the appropriate time for the deferred shares to be cancelled.

39 Reconciliation of movements in equity shareholders funds

	2011 £000	2010 £000
At beginning of the year	**6,085**	5,942
New shares issued	**45**	–
Movement in share premium account	**951**	–
Other reserves	**184**	(5)
Dividend received	**–**	478
Profit/(loss) for the year	**331**	(330)
At 31 March	**7,596**	6,085

Notes to the Financial Statements of the Company

for the year ended 31 March 2011

40 Reconciliation of movements in share premium account

	2011 £000	2010 £000
At beginning of the year	**11,705**	11,705
Issued in year	**966**	–
Acquisition costs	**(15)**	–
At 31 March	**12,656**	11,705

41 Reconciliation of movements in profit and loss

	2011 £000	2010 £000
At beginning of the year	**(9,179)**	(9,327)
Dividends received	**–**	478
Profit/(loss) for the year	**331**	(330)
At 31 March	**(8,848)**	(9,179)

42 Reconciliation of share-based payment reserve

	2011 £000	2010 £000
At beginning of the year	**287**	292
Movement during the year	**21**	(5)
At 31 March	**308**	287

43 Net cash flow from operating activities

	2011 £000	2010 £000
Net operating profit/(loss)	**199**	(335)
Increase in debtors	**(126)**	(126)
Increase in creditors	**62**	2,242
Net cash inflow from operating activities	**135**	1,781

44 Fair value disclosures

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

Notes to the Financial Statements of the Company

for the year ended 31 March 2011

45 Share based payments

The Group runs two equity-settled share based option schemes, an Enterprise Management Incentives ("EMI") scheme and an Executive Share Option Scheme ("EXSOS"). Options expire if the director or employee leaves the Group before exercise or if the options remain unexercised after the exercise period has lapsed.

The Group recognised a charge of £21,000 (2010: £5,000) related to equity-settled share based payment transactions. The corresponding equity debit/credit has been allocated to the share-based payment reserve. No deferred tax charge or credit has been recognised (2010: deferred tax charge £nil).

(a) EMI Scheme

At 31 March 2011, the following options have been granted and remain outstanding in respect of ordinary shares of 1p in the Company under the Company's EMI scheme.

Dates of grant	3 June 2010 – 31 Mar 2011	9 Sep 2009	20 Nov 2008	24 Aug 2007 – 9 Oct 2007	30 June 2006 – 30 Oct 2006
Exercisable	6 Sep 2010 – 30 Mar 2021	9 Sep 2009 – 8 Sep 2019	23 April 2010 – 19 Nov 2018	24 Aug 2009 – 8 Oct 2017	30 June 2008 – 29 Oct 2016
Number of shares	2,049,194	3,640,058	716,083	195,000	501,001
Exercise price per share	19.00p-30.00p	10p	15.00p-25.00p	35.00p-36.50p	29.94p
Fair value per share	4.07p-6.89p	0.39p	0.83p-1.15p	8.41p-8.83p	0.5-23.56p

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

Share price at date of grant	19.0p-23.5p	7.25p	7.00p	36.50p	14.97p-50.00p
Expected life	3 years	2 years	2.5 years	2.5 years	2.18-2.5 years
Expected volatility	40%	25%	67.4%	29.9%	29.9%
Risk free rate	2.0%-2.5%	3.00%	3.62%	4.08%	4.68%
Expected dividend yield	nil	nil	nil	nil	nil

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

EMI Share option scheme	2011		2010	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
1 April	**5,560,062**	**14.29p**	4,184,690	28.11p
Granted	**2,749,194**	**25.81p**	3,991,078	10.00p
Exercised	**(102,776)**	**10.00p**	–	–
Forfeited	**(1,105,144)**	**21.78p**	(26,700)	32.40p
Waived	**–**	**–**	(2,589,006)	28.68p
31 March	**7,101,336**	**17.65p**	5,560,062	14.29p
Exercisable	**2,659,950**	**15.70p**	2,176,027	18.52p

Notes to the Financial Statements of the Company

for the year ended 31 March 2011

45 Share based payments (continued)

(b) EXSOS Scheme

At 31 March 2011, the following options have been granted and remain outstanding in respect of ordinary shares of 1p in the Company under the Company's EXSOS scheme.

Dates of grant	23 July 2010	9 Sep 2009	24 Aug 2007	30 June 2006
Exercisable	23 July 2011 – 22 July 2020	9 Sep 2009 – 8 Sep 2019	24 Aug 2009 – 23 Aug 2017	30 June 2008 – 29 June 2016
Number of shares	471,806	167,005	70,000	167,016
Exercise price per share	23.50p-30.00p	10.00p	36.50p	29.94p
Fair value per share	3.38p-4.99p	0.39p	8.41p	0.5p

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

Share price at date of grant	23.5p	7.25p	36.50p-38.50p	14.97p
Expected life	1.0-3.0 years	2 years	2.5 years	2.5 years
Expected volatility	40%	25%	29.9%	29.9%
Risk free rate	2.50%	3%	4.08%-4.57%	4.68%
Expected dividend yield	nil	nil	nil	nil

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

EXSOS Share option scheme	2011		2010	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
1 April	**404,021**	**22.83p**	1,050,473	33.13p
Granted	**471,806**	**29.71p**	167,005	10.00p
Waived	**–**	**–**	(813,457)	33.49p
31 March	**875,827**	**26.54p**	404,021	22.83p
Exercisable	**308,796**	**27.47p**	292,684	27.72p

46 Related party transactions

The Company has taken advantage of the exemption provided by FRS 8 from the requirement to disclose transactions with other companies in the Group on the basis that consolidated financial statements in which the Company's results are included are publicly available.

Merchant Securities

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 sixth Annual General Meeting to be held at 51-55 Gresham Street, London EC2V 7HQ on Wednesday, 28 September 2011, at 10.00 a.m. for the following purposes:

Ordinary Business

To receive and, if thought fit, pass the following resolutions numbered 1-5 (inclusive) as ordinary resolutions:

1. To receive and adopt the Company's annual accounts for the year ended 31 March 2011, together with the Report of the Directors and the Independent Auditors' Report on those accounts.
2. 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.
3. 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.
4. To reappoint as a director Mr Nigel Gurney, who was appointed to the Board of the Company since the last Annual General Meeting and being eligible, offers himself for election.
5. To reappoint Crowe 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 6 will be proposed as an ordinary resolution, and resolutions 7 and 8 will be proposed as special resolutions:

Ordinary resolution – authority to allot relevant securities

6. That the directors be generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 ("the Act") to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company ("Relevant Securities"), up to a maximum aggregate nominal amount equal to £256,739.36 (equivalent to 25,673,936 shares), provided that:
   (a) this authority shall expire at the conclusion of the next Annual General Meeting of the Company or (if earlier) unless previously revoked, varied or renewed by the Company in a 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 Relevant Securities pursuant to such offer or agreement as if this authority had not expired; and
   (c) all prior authorities to allot Relevant Securities be revoked but without prejudice to any allotment of Relevant Securities already made thereunder.

Notice of Annual General Meeting

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

Special resolution – disapplication of statutory pre-emption rights

7. That, subject to and conditional upon the passing of resolution 6 set out in the notice of this meeting, the directors be generally empowered pursuant to sections 570 and 573 of the Act to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authority conferred by the said resolution 6, as if section 561(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 in proportion (as nearly as may be practicable) to the respective numbers of ordinary shares held by them on that date, but subject to such exclusions and/or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements or any legal, regulatory or practical difficulties under the laws of any territory, or the requirements of any regulatory body or stock exchange, or as regards shares in uncertificated form; and

   (b) the allotment (otherwise than pursuant to sub-paragraph a) above) of equity securities having an aggregate nominal amount not exceeding £102,695.74 (equivalent to 10,269,574 shares),

   and this power shall expire at the conclusion of the next Annual General Meeting of the Company or (if earlier), unless previously revoked, varied or renewed, 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 – authority to purchase Company's own shares

8. That the Company be generally authorised pursuant to section 701 of the Act to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 1p each in the capital of the Company on such terms and in such manner as the directors shall determine, provided that:

   (a) the maximum number of ordinary shares hereby authorised to be purchased is limited to an aggregate of 10,269,574 shares (equivalent to £102,695.74);

   (b) the minimum price, exclusive of any expenses, which may be paid for each ordinary share is 1p;

   (c) the maximum price, exclusive of any expenses, which may be paid for each ordinary 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 at the conclusion of the next Annual General Meeting of the Company or (if earlier), unless previously revoked, varied or renewed; and

   (e) the Company may make a contract to purchase ordinary shares under this authority prior to the expiry of this authority which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of ordinary shares pursuant to any such contract as if such authority had not expired.

By order of the Board

R-M Sexton
Company Secretary

Registered Office:
51-55 Gresham Street
London EC2V 7HQ

Dated: 30 August 2011

Notice of Annual General Meeting

Notes:

Entitlement to attend and vote

1. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, the Company gives notice that only those shareholders entered on the relevant register of members (the "Register") for certificated or uncertificated shares of the Company (as the case may be) at 10.00 a.m. on 26 September 2011 (the "Specified Time") will be entitled to attend or vote at the General Meeting in respect of the number of shares registered in their name at the time. Changes to entries on the Register after the Specified Time will be disregarded in determining the rights of any person to attend or vote at the General Meeting. Should the General Meeting be adjourned to a time not more than 48 hours after the Specified Time, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned General Meeting. Should the General Meeting be adjourned for a longer period, then to be so entitled, members must be entered on the Register at the time which is 48 hours before the time fixed for the adjourned General Meeting or, if the Company gives notice of the adjourned General Meeting, at the time specified in the notice.

Appointment of proxies

2. As a member of the Company, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the meeting and you should have received a separate Proxy Form along with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the Proxy Form.

3. A proxy does not need to be a member of the Company but must attend the meeting to represent you. Details of how to appoint the Chairman of the meeting or another person as your proxy using the Proxy Form or via CREST are set out in the notes to the Proxy Form. If you wish your proxy to speak on your behalf at the meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.

4. If you do not give your proxy an indication of how to vote on any resolution, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the meeting.

Appointment of proxy using hard copy Proxy Form

5. The notes to the Proxy Form explain how to direct your proxy how to vote on each resolution or withhold their vote. To appoint a proxy using the Proxy Form, the form must be:
   - completed and signed;
   - sent or delivered to PXS, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU; and
   - received by Capita Registrars no later than 10.00 a.m. on 26 September 2011.

   In the case of a member which is a company, the Proxy Form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the Proxy Form is signed (or a duly certified copy of such power or authority) must be included with the Proxy Form.

Appointment of proxy via CREST

6. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members and those CREST members who have appointed voting service provider(s), should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

7. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (formerly CRESTCo's) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must in order to be valid, be transmitted so as to be received by Capita Registrars (ID RA10) by no later than 10.00 a.m. on 26 September 2011. No such message received through the CREST network after this time will be accepted. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the registrars are able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means. CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Appointment of proxy by joint members

8. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Register in respect of the joint holding (the first-named being the most senior).

Changing proxy instructions

9. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

   Where you have appointed a proxy using the hard copy Proxy Form and would like to change the instructions using another hard copy Proxy Form, please contact Capita Registrars on 0871 664 0300 from within the UK or on +44 20 8639 3399 if calling from outside the UK. Calls to the 0871 664 0300 number cost 10 pence per minute plus network extras. Lines are open 8.30 a.m. to 5.30 p.m. (London time) Monday to Friday (except UK public holidays). Calls to the helpline from outside the UK will be charged at the applicable international rate. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Proposals nor give any financial, legal or tax advice. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

Termination of proxy appointments

10. In order to revoke a proxy instruction (other than a CREST Proxy instruction) you will need to inform Capita Registrars by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to PXS, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

    The revocation notice must be received by Capita Registrars no later than 10.00 a.m. on 26 September 2011.

    If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

    Appointment of a proxy does not preclude you from attending the meeting and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.

Communication

11. Except as provided above, members who have general queries about the meeting should contact Capita Registrars on 0871 664 0300 from within the UK or on +44 20 8639 3399 if calling from outside the UK. Calls to the 0871 664 0300 number cost 10 pence per minute plus network extras. Lines are open 8.30 a.m. to 5.30 p.m. (London time) Monday to Friday (except UK public holidays). Calls to the helpline from outside the UK will be charged at the applicable international rate. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Proposals nor give any financial, legal or tax advice.

    You may not use any electronic address provided either:

    – in this notice of General Meeting; or
    – any related documents (including the Proxy Form),

    to communicate with the Company for any purposes other than those expressly stated.

Notice of Annual General Meeting

Explanatory notes to the Notice of Annual General Meeting

Resolution 1 – report and accounts

The directors are required to present the accounts for the year ended 31 March 2011 to the meeting.

Resolutions 2 and 3 – reappointment of directors

The Articles of Association of the Company require that one third of the directors of the Company must seek re-election at the Annual General Meeting.

Resolution 4 – appointment of director

Any director who has been appointed since the last Annual General Meeting must retire and may offer him or herself for re-election and such directors are not counted in calculating the number of directors to retire by rotation.

Resolution 5 – 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, Crowe Clark Whitehill LLP, and authorises the directors to agree their remuneration.

Resolution 6 – authority to allot the relevant securities

The Company requires the flexibility to allot shares from time to time. With effect from 1 October 2009, the Companies Act 2006 (the "Act") abolished the requirement for a company to have an authorised share capital. The directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the Companies Act 2006, save in respect of employee share schemes.

The directors' existing authority to allot "relevant securities" (including ordinary shares and/or rights to subscribe for or convert into ordinary shares), which was granted (pursuant to section 80 of the Companies Act 1985) at the Annual General Meeting held on 22 September 2010, will expire at the end of this year's Annual General Meeting. Accordingly, paragraph (i) of resolution 6 would renew and increase this authority (until the next Annual General Meeting or unless such authority is revoked or renewed prior to such time) by authorising the directors (pursuant to section 551 of the Act) to allot relevant securities up to an aggregate nominal amount equal to approximately one half of the current issued share capital of the Company. Save in respect of the issue of new ordinary shares pursuant to the Company's share incentive schemes or as a result of scrip dividends, 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 7 – disapplication of re-emption rights

This resolution seeks to disapply the pre-emption rights provisions of section 561 of the Act in respect of the allotment of equity securities for cash 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 £102,695.74 (equivalent to 10,269,574 shares), being an amount equal to approximately 20% per cent. of the current issued share capital of the Company. If given, this power will expire at the same time as the authority referred to in resolution 6. The directors consider this power desirable due to the flexibility afforded by it. Save in respect of the issue of new ordinary shares pursuant to the Company's share incentive schemes, the directors have no present intention of issuing any equity securities for cash pursuant to this disapplication.

Notice of Annual General Meeting

Resolution 8 – 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 statutory requirements. Such purchases must be authorised by the shareholders at a general meeting. This resolution seeks to grant the directors authority (until the next Annual General Meeting or (if earlier), unless such authority is revoked or renewed prior to such time) to make market purchases of the Company's own ordinary shares, up to a maximum of 10,269,574 shares, being an amount equal to approximately 20 per cent. of the current issued share capital of the Company. The maximum price payable would be an amount equal to 105 per cent. of the average of the middle market quotations for an ordinary share of the Company for the five business days immediately preceding the date of purchase and the minimum price would be the nominal value of 1p per share. Although the directors have no current intention to make such purchases, they consider that it is in the best interests of the Company and its shareholders to keep the ability to make market purchases of the Company's own shares in appropriate circumstances, without the cost and delay of a general meeting. The authority would only be exercised if the directors believe the purchase would enhance earnings per share and be in the best interests of shareholders generally. The Company may hold in treasury any of its own shares that it purchases in accordance with the authority conferred by this resolution. This would give the Company the ability to re-issue treasury shares quickly and cost-effectively and would provide the Company with greater flexibility in the management of its capital base.

Documents available for inspection

There will be available for inspection at the registered office of the Company during normal business hours on any weekday (excluding Saturdays and public holidays), and at for at least 15 minutes prior to and during the Annual General Meeting, copies of:

1. The service contract of each executive director and the letter of appointment of each non-executive director.
2. Copies of the current Articles of Association.

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Merchant Securities

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