

AIM: MERC
13 December 2010



Merchant Securities Group plc
(“Merchant Securities” or “the Group”)

Half Year Results
for the Six Months ended 30 September 2010

Merchant Securities Group plc, the financial services group specialising in institutional sales, research and trading, private client broking and investment management, corporate finance and corporate broking, announces its half year results for the six month period ended 30 September 2010.

Key Points

- Revenue up by 17% to £3.84 million (2009: £3.27 million)
- Underlying* profit before tax up by 80% to £524,000 (2009: £289,000)
- Underlying* earnings per share up by 79% to 1.11p (2009: 0.62p)
- Strong balance sheet with £2.4 million of net cash (2009: £2.2 million)
- Private client services achieved particularly strong performance
 - advisory and discretionary funds under management and administration increased by 35% to £205 million (2009: £152 million)
- Corporate finance completed 13 transactions, including three new AIM admissions
- Expansion of corporate finance and institutional broking team
- Moved into new offices to consolidate operations and facilitate expansion
- Continued investment in all businesses

* underlying profits are before amortisation, discretionary profit share and non-recurring items

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

“The benefits of our strategy to diversify the business base are evident in these excellent interim results, which show revenues increasing by 17% year on year and underlying profit before tax up by 80%. The private client area and corporate finance division showed impressive revenue growth of 17% and 27% respectively over the same period last year.

During the first half, we completed the integration of our securities and corporate finance activities and moved to larger offices which provide us with ample scope for our continuing expansion.

Looking ahead, I remain confident about our growth prospects as we pursue our expansion plans. Alongside our ambitions to build the business organically, we continue to look for suitable acquisitions.”

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Chairman's Statement

Introduction

The last financial year saw the Group move firmly back into profitability and I am pleased to report that the six months to 30 September 2010 have seen Merchant Securities continue to grow, with all our core trading activities, private client wealth management, corporate finance and institutional sales and research, generating increased revenues over the same period last year. As a result, both revenues and underlying pre-tax profits for the period have increased significantly, with revenues up by 17 per cent. to £3.8 million and underlying pre-tax profits up by 80 per cent. to £524,000. This encouraging performance has been underpinned by our strategy to diversify the Group's base of core activities, which we put in place some twenty four months ago.

During the first half, we completed the integration of our securities activities, comprising private client broking, investment management, institutional research and sales trading, corporate finance and corporate broking. These now all trade under the Merchant Securities name. In July 2010, we also moved all our London activities to new larger offices in Gresham Street in the City of London, consolidating our operations and providing us with scope to continue our expansion.

Financial Results

For the half year to 30 September 2010, the Group's revenue increased by 17 per cent. to £3.84 million (2009: £3.27 million). Operating profit before amortisation, provision for profit sharing bonus pool and non-recurring costs rose by 80 per cent. to £524,000 (2009: £289,000). Non-recurring costs totalled £471,000 and related to our move to new premises. Underlying profit before tax (which excludes non-recurring costs) increased to £229,000 (2009: £123,000). After taking the non-recurring costs into account, the result for the period was a net loss before taxation of £242,000 (2009: profit of £123,000). Excluding non-recurring costs, underlying earnings per share was 1.11p (2009: 0.62p). Statutory loss per share was 0.52p (2009: earnings per share of 0.26p).

The Group's balance sheet remains strong with net cash balances at 30 September 2010 of £2.4 million (30 September 2009: £2.2 million). Net cash balances currently stand at £2.8 million.

Review of Operations

Our private client business has been active in the first half of the year. We launched a further three managed funds in the period, taking our total to 11 and have increased our funds under management and administration by £53 million to approximately £205 million. We now have approximately 4,000 private clients, up from 3,500 in the same period last year. In November 2010, after the period end, our private client business won Best Advisory Service in The Daily Telegraph Wealth Management Awards 2010. This is particularly pleasing as the award was determined by public vote.

Our corporate finance and advisory activities benefited from the pick-up in the level of activity in the AIM market and the corporate finance division enjoyed a strong first half, completing 13 transactions, three of which were new admissions to AIM, and adding a number of new clients. One of these transactions, the restructuring of Norman Broadbent plc and accompanying £2 million placing, was shortlisted for the AIM Transaction of the Year at the 2010 AIM Awards held recently.

Although equity markets were strong in the period under review, there was volatility in trading levels and as a result of these difficult conditions institutional commissions were adversely affected. We have, however, continued to increase the number of institutional clients subscribing to our flagship daily research product, Mercantylst, which provides a technical review of trends in the market. We have also expanded our corporate finance and institutional broking teams and in September, Chris Smith, the highly rated senior financials analyst,

joined to develop our equity research offering. Chris has now been appointed head of our institutional department, with a brief to expand its activities.

In July, we moved all the London operations into our new offices in Gresham Street. The securities activities are now all trading under the Merchant Securities brand and we are seeing the benefits of working together.

Outlook

We continue to develop and invest in all areas of our business, and are working on a number of significant transactions. Subject to these completing in line with their expected timetables, we are looking for a good second half outcome.

In line with our growth strategy, we are continuing to consider suitable complementary acquisitions, which will help us to develop our existing operations.

John Green

Chairman

13 December 2010

About Merchant Securities Group plc

Merchant Securities Group plc provides a range of financial service products and advice to high net worth private clients, institutions and smaller businesses. The Company is the parent company of Merchant Securities Limited, which is authorised and regulated by the Financial Services Authority and provides a range of services, including advisory and discretionary wealth management for high net worth private clients, research, sales and sales trading for institutional investors, and corporate finance and corporate broking services, including raising capital, for smaller public and private companies.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Continuing operations	Six months to 30 September 2010 Unaudited £000	Six months to 30 September 2009 Unaudited £000	Year ended 31 March 2010 Audited £000
Revenue	3,836	3,266	7,611
Cost of sales	(539)	(605)	(1,281)
Gross Profit	3,297	2,661	6,330
General administrative expenses	(2,790)	(2,377)	(5,087)
Amortisation of intangible assets	(113)	(84)	(194)
Non-recurring items	(471)	-	-
Profit share accrual	(182)	(82)	(426)
Operating (loss)/profit	(259)	118	623
Investment revenues	22	5	19
Finance costs	(5)	-	(2)
(Loss)/profit before taxation	(242)	123	640
Taxation	-	-	(129)
(Loss)/profit attributable to equity holders	(242)	123	511
Earnings per share			
Basic	(0.52p)	0.26p	1.09p
Diluted	(0.52p)	0.24p	0.97p

The (loss)/profit for the period attributable to equity holders of the Company is as follows:

Underlying profit	524	289	1,260
Amortisation of intangible assets	(113)	(84)	(194)
Non-recurring items	(471)	-	-
Profit share accrual	(182)	(82)	(426)
	(242)	123	640
Taxation	-	-	(129)
(Loss)/profit attributable to equity holders	(242)	123	511

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 September 2010 Unaudited £000	30 September 2009 Unaudited £000	31 March 2010 Audited £000
Non-current assets			
Goodwill	2,554	2,554	2,554
Intangible assets	510	681	623
Property, plant and equipment	434	243	137
Available-for-sale investments	47	-	-
Trade and other receivables	150	150	150
Deferred tax asset	12	-	12
	3,707	3,628	3,476
Current assets			
Trade and other receivables	1,463	1,522	1,249
Cash and cash equivalents	2,421	2,191	3,141
	3,884	3,713	4,390
Total assets	7,591	7,341	7,866
Current liabilities			
Trade and other payables	(1,175)	(1,052)	(1,129)
Short-term borrowings	(6)	-	(76)
	(1,181)	(1,052)	(1,205)
Non-current liabilities			
Other liabilities	(383)	(176)	(228)
Deferred tax liabilities	(3)	(16)	(3)
	(386)	(192)	(231)
Total liabilities	(1,567)	(1,244)	(1,436)
Total assets less liabilities	6,024	6,097	6,430
Equity			
Share capital	3,272	3,272	3,272
Share premium account	11,705	11,705	11,705
Other reserves	(3,845)	(3,845)	(3,845)
Share-based payment reserve	305	288	287
Retained earnings	(5,177)	(5,323)	(4,935)
Employee benefit trust	(236)	-	(4,935)
	6,024	6,097	6,430
Equity attributable to equity holders	6,024	6,097	6,430

CONSOLIDATED CASH FLOW STATEMENT

	Six months to 30 September 2010 Unaudited £000	Six months to 30 September 2009 Unaudited £000	Year ended 31 March 2010 Audited £000
Cash flows from operating activities			
Cash (used)/generated from operations	(340)	116	1,024
Interest received	22	5	19
Interest paid	(5)	-	(2)
Tax received	83	-	-
Net cash (used in) / generated from operating activities	<u>(240)</u>	121	1,041
Cash flows from investing activities			
Acquisition of subsidiary business	-	(60)	(60)
Purchase of property, plant and equipment	(373)	(23)	(15)
Proceeds from lease capital contribution * ²	200	-	-
Loss on disposal of tangible fixed assets	(8)	-	-
Purchase of available-for-sale investments	(47)	-	-
Net cash used in investing activities	<u>(228)</u>	(83)	(75)
Cash flows from financing activities			
Purchase of shares by employee benefit trust	(182)	-	(54)
Net cash used in financing activities	<u>(182)</u>	-	(54)
Net (decrease) / increase in cash and cash equivalents	(650)	38	912
Cash and cash equivalents at beginning of period	<u>3,065</u>	2,153	2,153
Cash and cash equivalents at end of period	<u>2,415</u>	2,191	3,065

*² During the period the company received a capital contribution towards the cost of refurbishing the new premises amounting to £200,000. The benefit from this receipt has been spread over the life of the lease, 6 years.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	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
Equity as at 1 April 2008	3,115	10,340	(3,845)	36	152	(978)	-	8,820
Loss for the 6 months ended 30 September 2008						(1,341)		(1,341)
Total recognised income and expenses for the period						(1,341)		(1,341)
Issue of shares net of costs	157	1,365						1,522
Share based payments					88			88
Equity as at 30 September 2008	3,272	11,705	(3,845)	36	240	(3)	(127)	9,089
Revaluation reserve movement				(36)				36
Loss for the 6 months ended 31 March 2009						(3,127)		(3,127)
Total recognised income and expenses for the period				(36)		(3,127)		(3,163)
Share based payments					52			52
Equity as at 31 March 2009	3,272	11,705	(3,845)	-	292	(5,446)	-	5,978
Profit for the 6 months ended 30 September 2009						123		123
Total recognised income and expenses for the period						123		123
Share based payments					(5)			(5)
Equity as at 30 September 2009	3,272	11,705	(3,845)	-	287	(5,323)	-	6,096
Purchase of shares							(54)	(54)
Profit for the 6 months ended 31 March 2010						388		388
Equity as at 31 March 2010	3,272	11,705	(3,845)	-	287	(4,935)	(54)	6,430
Purchase of shares							(182)	(182)
Share based payments					17			17
Profit for the 6 months ended 30 September 2010						(242)		(242)
Equity as at 30 September 2010	3,272	11,705	(3,845)	-	305	(5,177)	(236)	6,023

NOTES

Note 1 – Accounting policies

Basis of preparation

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

The interim financial statements have been prepared on the basis of the accounting policies as stated in the consolidated financial statements for the year ended 31 March 2010. The interim financial statements should be read in conjunction with those audited financial statements for the year ended 31 March 2010.

The financial information set out in this interim statement is unaudited and does not constitute statutory accounts within the meaning of Section 434 (3) of the Companies Act 2006.

The statutory accounts for the year ended 31 March 2010, which were prepared under IFRS, have been delivered to the Registrar of Companies. The auditors of the Group, Horwath Clark Whitehill LLP now Crowe Clark Whitehill LLP, reported on those accounts: their report was unqualified and did not contain a statement under either Section 498 (2) or Section 498 (3) of the Companies Act 2006.

Note 2 – Basis of consolidation

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

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

Note 3 – Revenue and gross profit by segment

The Group's results for the period ended 30 September 2010, all of which were generated within the United Kingdom, can be analysed by product as follows:

	Six months to 30 September 2010 Unaudited £000	Six months to 30 September 2009 Unaudited £000	Year ended 31 March 2010 Audited £000
Revenue			
Private client	2,101	1,788	4,048
Institutional broking	716	708	1,559
Corporate	1,019	803	2,004
Central	-	(33)	-
	3,836	3,266	7,611
Profit/(loss) before tax			
Private client	643	585	1,006
Institutional broking	(48)	100	548
Corporate	(84)	(396)	(294)
Central	(753)	(166)	(620)
	(242)	123	640
Total assets – Central	7,591	7,341	7,866

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

Note 4 – Particular Administrative Expenses

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

	Six months to 30 September 2010 Unaudited £000	Six months to 30 September 2009 Unaudited £000	Year ended 31 March 2010 Audited £000
Amortisation of intangibles	113	84	194
Profit share accrual	182	82	426
One-off items – office relocation costs	471	-	-
Depreciation	63	55	163
	829	221	783

Note 5 – Taxation

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

The corporation tax currently payable is based on the estimated taxable profit for the period. Taxable profit differs from net profit or loss as reported in the Consolidated Income Statement because it excludes items of income and expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's

current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

	Six months to 30 September 2010 Unaudited £000	Six months to 30 September 2009 Unaudited £000	Year ended 31 March 2010 Audited £000
Current UK corporation tax	-	-	154
UK Corporation tax adjustments in respect of prior periods	-	-	2
Deferred tax	-	-	(27)
	<hr/>	<hr/>	<hr/>
	-	-	129
	<hr/>	<hr/>	<hr/>

Note 6 - Earnings per share

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

	Six months to 30 September 2010 Unaudited £000	Six months to 30 September 2009 Unaudited £000	Year ended 31 March 2010 Audited £000
Basic EPS			
(Loss)/profit for the period	(242)	123	511
Weighted average number of shares in issue (000)	46,897	46,897	46,897
Diluted EPS			
(Loss)/profit for the period	(242)	123	511
Weighted average number of shares in issue (000)	53,764	52,219	52,445