



## News release

30 July 2009

### Merchant Securities plc

Final results for the year ended 31 March 2009

Merchant Securities plc (“the Group”), the financial services group specialising in institutional research and trading, private client investment management, corporate finance and corporate broking announces its final results for the year ended 31 March 2009.

#### Financial and operational highlights:

- Company continues to weather financial crisis and is emerging stronger and capable of capitalising on opportunities presented by the current economic environment
- Pre-tax profit in second half of £79,000 reduces loss for the year ended 31 March 2009, to £502,000 before non-recurring investment writedowns of £396,000, together with a write-down of intangible assets of £646,700 and goodwill of £2,624,000
- Business review has eliminated excess costs and focused business on core activities of private client investment services, institutional research and trading, corporate finance for public and private companies and corporate broking
- Group reorganisation to transfer the business of Merchant Securities Group Limited (“MSGL”), into John East & Partners Limited, (“JEP”) as the single entity which will carry out all the activities currently conducted within the group. The name of the trading subsidiary will be Merchant John East Securities Limited
- Since the year end, our institutional, private client wealth management and contracts for difference business activities continue to grow and the Group has made a profit before and after taxation in the first quarter of 2009-10

John Green, Chairman, Merchant Securities plc, says:

“A year ago we were entering the eye of the storm and it would be folly to suggest that the coming year will be anything other than difficult. With the private client division’s continued issue of innovative structured investment products, a full year’s contribution from Mercantalyt, the prospects of an improvement in corporate finance activity and the cost efficiencies arising from the reorganisation, I am confident that the Board and senior management have taken the right action to position the Company to deliver value to shareholders. It is also pleasing to note that the Group has made a profit before taxation in the first quarter of the current financial year.”

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Merchant Securities plc		

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The Company has convened its fourth Annual General Meeting to be held at John Stow House, 18 Bevis Marks, London EC3A 7JB on 23 September 2009, at 10.00 am.

Financial statements for the year ended 31 March 2009 will be posted to shareholders by 28 August 2009 who are on the register on 18 August 2009 and will also be available from the Company's registered office, John Stow House, 18 Bevis Marks, London EC3A 7JB. Alternatively, the document will be available to be viewed or downloaded from the Company's website: [www.merchantsecurities.co.uk](http://www.merchantsecurities.co.uk)

## **CHAIRMAN'S STATEMENT**

### **Introduction**

In presenting our results for the year ended 31 March 2009, I am pleased to report that, notwithstanding the turmoil in financial markets, Merchant Securities has made significant progress, both financially and in the development of its strategy.

Decisive action by the board enabled the Company to turn around performance in the second half, so earning a small pre tax profit in that period. The Company has thus not only weathered the financial crisis, but emerged stronger and capable of capitalising on the opportunities that are likely to materialise in the current trading environment.

The Group earned a pre-tax profit in the second half of £79,000 before goodwill impairment, revaluation of investments and non-recurring items. The costs of reorganising the business and difficult market conditions for the year ended 31 March 2009 resulted, however, in a pre-tax loss for the year as a whole of £502,000 on the same basis.

The Board has reviewed the goodwill and intangible assets carried on its balance sheet in accordance with International Financial Reporting Standards. Following this review, the Board has decided to take a charge of £647,000 for the impairment of intangible assets and a further charge of £2,624,000 relating to the impairment of goodwill. Neither of these amounts has any impact on the Group's financial position, tangible net assets, cash balances or regulatory capital. Your Board has decided to take this approach to reflect the changed market conditions currently prevalent and which impact the main operating subsidiaries of the Company.

### **Strategic development**

I referred in my statement last year to the need to focus and develop our core activities as well as to strengthen the infrastructure of the business. The Group strengthened its balance sheet in June 2008 through the issue of new share capital. Patrick Claridge, formerly the chief operating officer, was appointed chief executive in August 2008. He has instigated a review of the business which has led to an elimination of excess costs and an increased focus on core activities, namely private client investment services, institutional research and trading, corporate finance for public and private companies and corporate broking.

The Company has no debt and a strengthened balance sheet. The board, therefore, believes that the Company is well placed to exploit the current market conditions, which it believes may present opportunities for organic growth and growth through carefully targeted acquisitions or appointments. Each of the Company's core activities is charged with the objective of growing its business and achieving recurring revenue streams.

The Board intends to transfer the business of MSGL into JEP which will become the single entity carrying out all the activities currently conducted within the group. The name of the trading subsidiary will be Merchant John East Securities Limited and it is intended that the process will be completed by 30 September 2009. Apart from establishing a single brand, the reorganisation will bring further cost savings and streamline the Company's structure by removing duplication of finance and compliance functions.

### **Operational and financial review**

We announced in April that the Company expected to make a modest profit in the second half of the year and, on the basis set out above, this was achieved. For the year ended 31 March 2009, the Company made a pre tax loss of £4,577,000 on turnover of £5,425,000. As also set out above, the Group made a loss of £502,000 before goodwill impairment, revaluation of investments and non-recurring items. A profit was made in the second half of the year of £79,000 on the same basis. The non-recurring losses of £4,074,000, relate to the costs of reorganising the group, continuing amortisation of the intangible asset arising from the acquisition of JEP, an additional write-down of intangible assets and goodwill, together with the impact of a decision at the half year to write down all of the Company's investments to nil.

Following the write-down of our investment portfolio in the first half and the decision to write-down the goodwill and intangible assets there were no other exceptional items in the second half. As at 31 March 2009, the Company had net tangible assets of £2.9 million, cash of £2.2 million and no debt. The directors believe that the Company has a comfortable capital cushion over its minimum regulatory capital requirement.

**Current trading**

I have spoken before of the Board's strategy of developing a diversified financial services group and over recent months we have further enhanced the range of services, products and expertise within various core areas of the Company.

The institutional business has been substantially enhanced by its daily research product, Mercantalyst. This is a strongly differentiated publication which is received by an ever expanding list of institutional clients and is generating worthwhile and growing revenue.

Since the year end, the volumes in our private client wealth management and contracts for difference business have continued to grow. JEP had 38 retained clients at the year end and whilst there is little IPO activity, it continues to receive income from retainers, secondary issues and general advisory work. The private equity team continues to raise funds for private companies in the sub £10 million sector.

Within the private client business, we are looking for ways to differentiate ourselves from our competitors. This has been achieved through the issue of various structured investment products designed to manage current market risk. These have been well received by clients.

Current year trading has continued to improve and the group has made a modest profit before and after taxation in the first quarter of 2009-10

**Board changes**

John Foster-Powell was appointed to the board on 10 November 2008 as Chief Financial Officer.

**Outlook**

A year ago we were entering the eye of the storm and it would be folly to suggest that the coming year will be anything other than difficult. The progress made over the last year has, however, been heartening and I would like to express my thanks to Patrick, the senior management team and all members of staff who have worked hard and successfully in very tough conditions. It is particularly pleasing to note that the Group has started the first quarter of the current financial year with a modest profit before taxation.

With the private client division's continued issue of innovative structured investment products, a full year's contribution from Mercantalyst, the prospects of an improvement in corporate finance activity and the cost efficiencies arising from carrying on all trading within one entity, I am confident that the Board and senior management have taken the right action to position the Company to deliver value to shareholders and an improved performance in the current year is in prospect.

John Green  
Chairman  
29 July 2009

## CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 March 2009		Year ended 31 March 2008	
		£	£	£	£
Revenue	1	5,425,021		5,337,254	
Cost of sales	1	<u>(829,309)</u>		<u>(1,481,062)</u>	
<b>Gross profit</b>	1	<b>4,595,712</b>		<b>3,856,192</b>	
Other income	1	<b>40,292</b>		<b>43,929</b>	
General administrative expenses		<b>5,266,455</b>		4,345,996	
Impairment of goodwill	7	<b>2,624,387</b>		-	
Impairment of intangible assets	8	<b>646,700</b>		-	
Amortisation of intangible assets	8	<b>120,000</b>		60,000	
Revaluation of trading investments	9	<b>381,636</b>		72,704	
Loss on disposal of trading investments		<b>14,840</b>		-	
Impairment of available-for-sale investments	2	-		93,567	
Non-recurring items and AIM admission expenses		<b>286,790</b>		<b>399,047</b>	
		<b>(9,340,808)</b>		<b>(4,971,314)</b>	
<b>Operating loss</b>		<b>(4,704,804)</b>		<b>(1,071,193)</b>	
Investment revenues	3	<b>147,119</b>		416,423	
Finance costs	3	<b>(19,140)</b>		(120,380)	
Loss on disposal of available-for-sale investments		-		<u>(3,333)</u>	
<b>Loss before taxation</b>		<b>(4,576,825)</b>		<b>(778,483)</b>	
Taxation		<b>108,433</b>		<b>42,836</b>	
<b>Loss for the year attributable to equity holders of the Company</b>		<b>(4,468,392)</b>		<b>(735,647)</b>	
<b>Earnings per share</b>					
Basic and diluted	6	<b>(10.63p)</b>		<b>(2.97p)</b>	

The loss for the year attributable to equity holders of the Company is as follows:					
Loss before tax, goodwill impairment, revaluation of investments and non-recurring items		<b>(502,472)</b>		(153,165)	
Impairment of goodwill	2,624,387			-	
Impairment of intangible assets	646,700			-	
Amortisation of intangible assets	120,000			60,000	
Revaluation of investments held for sale	381,636			72,704	
Loss on disposal of investments held for sale	14,840			-	
Impairment of available-for-sale investments	-			93,567	
Non-recurring items	<b>286,790</b>			<b>399,047</b>	
		<b>(4,074,353)</b>		<b>(625,318)</b>	
		<b>(4,576,825)</b>		<b>(778,483)</b>	
Taxation		<b>108,433</b>		<b>42,836</b>	
		<b>(4,468,392)</b>		<b>(735,647)</b>	

No dividends were paid during the year (2008: £Nil).

## CONSOLIDATED BALANCE SHEET as at 31 March 2009

		2009		2008	
Notes	£	£	£	£	£
<b>Non-current assets</b>					
Goodwill	7	2,554,000		5,127,860	
Intangible assets	8	562,300		1,329,000	
Property, plant and equipment		274,543		385,762	
Available-for-sale investments		-		49,569	
Trade and other receivables	10	150,000		150,000	
		<b>3,540,843</b>		<b>7,042,191</b>	
<b>Current assets</b>					
Trade and other receivables	10	1,026,848	3,085,655		
Trading investments		-	346,636		
Cash and cash equivalents	11	2,152,932	1,793,344		
		<b>3,179,780</b>	<b>5,225,635</b>		
<b>Current liabilities</b>					
Trade and other payables	12	(726,129)	(3,367,473)		
Current tax liabilities		-	(45,678)		
		<b>(726,129)</b>	<b>(3,413,151)</b>		
<b>Net current assets</b>		<b>2,453,651</b>		<b>1,812,484</b>	
<b>Non-current liabilities</b>					
Deferred tax liabilities		(16,000)		(34,579)	
<b>Total assets less liabilities</b>		<b>5,978,494</b>		<b>8,820,096</b>	
<b>Equity</b>					
Share capital	13	3,272,227		3,114,727	
Share premium account		11,705,061		10,340,169	
Other reserves		(3,845,350)		(3,845,350)	
Revaluation reserve		-		35,690	
Share-based payment reserve	14	292,485		152,397	
Retained earnings		(5,445,929)		(977,537)	
<b>Equity attributable to equity holders of the Company</b>		<b>5,978,494</b>		<b>8,820,096</b>	

**CONSOLIDATED CASH FLOW STATEMENT**  
for the year ended 31 March 2009

		2009	2008
		£	£
<b>Cash flows from operating activities</b>			
Cash used in operations	15	(1,087,287)	(826,384)
Interest received	3	147,119	416,423
Interest paid	3	(19,140)	(120,380)
Tax received/ (paid)		(91,613)	(101,238)
Net cash used in operating activities		<u>(1,050,921)</u>	<u>(631,579)</u>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiary business		(50,527)	(1,064,080)
Purchase of property, plant and equipment		(11,516)	(139,180)
Proceeds from disposal of held-for-sale investments		25,160	10,000
Purchase of held-for-sale investments		(75,000)	-
Net cash used in investing activities		<u>(111,883)</u>	<u>(1,193,260)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares (net of issue costs)		1,522,392	1,504,545
Net cash generated from financing activities		<u>1,522,392</u>	<u>1,504,545</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>359,588</b>	<b>(320,294)</b>
Cash and cash equivalents at beginning of year		<u>1,793,344</u>	<u>2,113,638</u>
Cash and cash equivalents at end of year		<u><u>2,152,932</u></u>	<u><u>1,793,344</u></u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2009

	Share capital	Share premium	Other reserves	Revaluation reserve	Share based payment reserve	Retained earnings
	£	£	£	£	£	£
Balance at 1 Apr 2007	1,942,000	7,408,351	(3,845,350)	(41,235)	64,066	(241,890)
Proceeds from new share issue (net of issue costs)	1,172,727	2,931,818	-	-	-	-
Movement in revaluation of available for sale investments	-	-	-	76,925	-	-
Net loss for the year	-	-	-	-	-	(735,647)
Total recognised income and expenses	1,172,727	2,931,818	-	76,925	-	(735,647)
Recognition of share- based payments	-	-	-	-	88,331	-
<b>Balance at 31 Mar 2008</b>	<b>3,114,727</b>	<b>10,340,169</b>	<b>(3,845,350)</b>	<b>35,690</b>	<b>152,397</b>	<b>(977,537)</b>
Proceeds from new share issue (net of issue costs)	157,500	1,364,892	-	-	-	-
Movement in revaluation of available for sale investments	-	-	-	(35,690)	-	-
Net loss for the year	-	-	-	-	-	(4,468,392)
Total recognised income and expenses	157,500	1,364,892	-	(35,690)	-	(4,468,392)
Recognition of share- based payments	-	-	-	-	140,088	-
<b>Balance at 31 Mar 2009</b>	<b>3,272,227</b>	<b>11,705,061</b>	<b>(3,845,350)</b>	<b>-</b>	<b>292,485</b>	<b>(5,445,929)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. REVENUE AND GROSS PROFIT BY SEGMENT

The Group's results for the year ended 31 March 2009, all of which were generated within the United Kingdom, can be analysed by product as follows:

	Private client and institutional broking £	Corporate finance and private equity £	Unallocated and reconciling items £	TOTAL 2009 £
<b>Revenue</b>	3,595,208	1,829,813	-	<b>5,425,021</b>
Cost of sales	(708,255)	(121,054)	-	<b>(829,309)</b>
<b>Gross profit</b>	<b>2,886,953</b>	<b>1,708,759</b>	<b>-</b>	<b>4,595,712</b>
Other income	29,776	8,411	2,105	<b>40,292</b>
Administrative expenses	(2,847,587)	(2,370,893)	(45,974)	<b>(5,264,454)</b>
Impairment of goodwill	(1,180,015)	(1,444,372)	-	<b>(2,624,387)</b>
Impairment of intangible assets	-	(646,700)	-	<b>(646,700)</b>
Amortisation of intangible assets	-	(120,000)	-	<b>(120,000)</b>
Revaluation of trading investments	-	(67,747)	(313,889)	<b>(381,636)</b>
Loss on disposal of trading investments	-	(14,840)	-	<b>(14,840)</b>
Non-recurring costs	(121,931)	(30,100)	(134,759)	<b>(286,790)</b>
<b>Operating (loss) / profit</b>	<b>(1,232,804)</b>	<b>(2,977,482)</b>	<b>(492,517)</b>	<b>(4,702,803)</b>
Investment revenues	81,885	33,319	31,915	<b>147,119</b>
Finance costs	(18,952)	-	(188)	<b>(19,140)</b>
Loss on disposal of fixed assets	-	(2,001)	-	<b>(2,001)</b>
<b>(Loss) / profit before taxation</b>	<b>(1,169,871)</b>	<b>(2,946,164)</b>	<b>(460,790)</b>	<b>(4,576,825)</b>
Taxation	-	90,903	17,530	<b>108,433</b>
<b>(Loss) / profit after taxation</b>	<b>(1,169,871)</b>	<b>(2,855,261)</b>	<b>(443,260)</b>	<b>(4,468,392)</b>
<b>Other information</b>				
Capital additions (including those resulting from acquisition)	8,674	2,842	-	<b>11,516</b>
Share based payments	30,571	46,146	63,371	<b>140,088</b>
Depreciation	41,548	79,186	-	<b>120,734</b>
<b>Balance sheet</b>				
Assets	2,125,175	2,055,642	2,539,806	<b>6,720,623</b>
Liabilities	(139,684)	(280,191)	(322,254)	<b>(742,129)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The Group's results for the year ended 31 March 2008, all of which were generated within the United Kingdom, can be analysed by product as follows:

	Private client and institutional broking £	Corporate finance and private equity £	Unallocated and reconciling items £	TOTAL 2008 £
<b>Revenue</b>	3,027,287	2,309,967	-	<b>5,337,254</b>
Cost of sales	(890,393)	(590,669)	-	<b>(1,481,062)</b>
<b>Gross profit</b>	<u>2,136,894</u>	<u>1,719,298</u>	-	<b>3,856,192</b>
Other income	20,000	23,929	-	<b>43,929</b>
	<u>2,156,894</u>	<u>1,743,227</u>	-	<b>3,900,121</b>
Administrative expenses	(2,116,181)	(1,367,463)	(862,352)	<b>(4,345,996)</b>
Amortisation of intangible assets	-	(60,000)	-	<b>(60,000)</b>
Revaluation of trading investments	-	(72,704)	-	<b>(72,704)</b>
Impairment of trading investments	-	-	(93,567)	<b>(93,567)</b>
Other non-recurring costs	-	-	(399,047)	<b>(399,047)</b>
<b>Operating (loss) / profit</b>	<u>40,713</u>	<u>243,060</u>	<u>(1,354,966)</u>	<b>(1,071,193)</b>
Investment revenues	-	-	416,423	<b>416,423</b>
Finance costs	-	-	(120,380)	<b>(120,380)</b>
Loss on disposal of available-for-sale investments	-	-	(3,333)	<b>(3,333)</b>
<b>(Loss) / profit before taxation</b>	<u>40,713</u>	<u>243,060</u>	<u>(1,062,256)</u>	<b>(778,483)</b>
Taxation	-	-	42,836	<b>42,836</b>
<b>(Loss) / profit after taxation</b>	<u>40,713</u>	<u>243,060</u>	<u>(1,019,420)</u>	<b>(735,647)</b>
<b>Other information</b>				
Capital additions (including those resulting from acquisition)	134,256	261,848	4,924	<b>401,028</b>
Share based payments	-	-	117,397	<b>117,397</b>
Depreciation	<u>11,842</u>	<u>37,201</u>	<u>40,580</u>	<b>89,623</b>
<b>Balance sheet</b>				
Assets	2,949,891	3,687,213	5,630,722	<b>12,267,826</b>
Liabilities	<u>2,187,302</u>	<u>556,378</u>	<u>704,050</u>	<b>3,447,730</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 2. PARTICULAR ADMINISTRATIVE EXPENSES

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

	Notes	2009	2008
		£	£
Impairment of goodwill		2,624,387	-
Impairment of intangibles		646,700	-
Amortisation of intangibles		120,000	60,000
Impairment of trading investments		381,636	72,704
Disposal of trading investments		14,840	-
One-off professional costs		84,568	253,000
Severance payments		155,472	95,233
Recruitment costs		-	50,814
Impairment of available-for-sale investment		-	93,567
Bad debts written-off		46,750	-
		<u>4,074,353</u>	<u>625,318</u>

### 3. INVESTMENT REVENUE AND FINANCE COSTS

Investment revenues comprise:

	2009	2008
	£	£
Interest receivable in respect of client bank accounts	27,635	332,858
Interest receivable in respect of Group company bank accounts	64,840	52,777
Other interest receivable	54,644	30,788
	<u>147,119</u>	<u>416,423</u>

Finance costs comprise:

	2009	2008
	£	£
Interest payable to clients	18,952	120,067
Interest on bank overdrafts	-	3
Other interest	188	310
	<u>19,140</u>	<u>120,380</u>

### 4. LOSS FOR THE YEAR

The loss for the year is stated after charging:

	2009	2008
	£	£
Auditors' remuneration – auditing of accounts pursuant to legislation	25,000	81,500
Auditors' remuneration – other services relating to taxation	-	9,185
Auditors' remuneration – other services	-	21,502
Operating leases – land and buildings	206,480	165,208
Operating leases – machinery	27,748	19,718
Depreciation of property, plant and equipment	120,734	89,164
Impairment of goodwill	2,624,387	-
Amortisation of intangible assets	120,000	60,000
Impairment of intangible assets	646,700	-
Share-based payments	<u>140,088</u>	<u>117,397</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 5. STAFF COSTS

<b>Directors' remuneration</b>	<b>2009</b>	2008
	£	£
Aggregate emoluments (excluding pension contributions)	<u>374,374</u>	<u>599,844</u>
Highest paid director (included within the above)	<u>128,057</u>	<u>191,600</u>

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 1 (2008: 1). During the year £25,873 (2008 £12,894) was paid into such schemes by the Group in respect of the director.

The following non-salary expenses were incurred in respect of directors:

<b>Compensation</b>	<b>2009</b>	2008
	£	£
Short-term benefits (health care, dental care and subsidised gym membership)	9,291	6,877
Long-term benefits (life assurance, critical illness cover and income protection)	4,876	-
Share based payments	<u>6,642</u>	<u>13,932</u>
	<u>20,809</u>	<u>20,809</u>

All key management personnel remuneration is included above. Note that short-term benefits are included in the amounts shown above for directors' remuneration.

<b>Staff costs (including directors' remuneration)</b>	<b>2009</b>	2008
	£	£
Wages and salaries (including commission and bonuses)	3,062,608	2,531,385
Social security costs	358,934	359,742
Termination payments – directors	52,500	70,100
Termination payments – other	<u>102,972</u>	<u>20,000</u>
	<u>3,577,014</u>	<u>2,981,227</u>

<b>Staff numbers</b>	<b>2009</b>	2008
	Number	Number
Executive directors	5	5
Others	<u>38</u>	<u>33</u>
The average number of employees (including directors) during the year was:	<u>43</u>	<u>38</u>

### Pension contributions

During the year an expense of £108,796 (2008 £57,432) was recorded in the Consolidated Income Statement in respect of retirement benefits for staff (including directors) accruing under money purchase pension schemes.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 6. EARNINGS PER SHARE

Basic earnings per share are based on the post-tax loss for the year of £4,468,392 (2008: loss of £735,647) and on 42,021,243 ordinary 1p shares (2008: 24,757,165) being the weighted average number of shares in issue during the year.

The effect of all potential ordinary shares under option is anti-dilutive. Details of the share options issued which could be dilutive in the future are set out in note 14.

Calculations are as follows:

	2009 £	2008 £
<b>Earnings for the purpose of basic and diluted earnings per share</b>		
Net loss attributable to equity holders of MSPLC	(4,468,392)	(735,647)
Impairment of goodwill	2,624,387	
Amortisation / Impairment of intangible assets	766,700	60,000
Revaluation of investments held-for-sale	381,636	72,704
Loss and disposal of investments held-for-sale	14,840	-
Impairment of available-for-sale investments	-	93,567
Non-recurring costs	286,790	399,047
Expenses added back	<u>4,074,353</u>	<u>625,318</u>
Notional net loss after adding back above expenses	<u>(394,039)</u>	<u>(110,329)</u>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u>42,021,243</u>	<u>24,757,165</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>47,220,057</u>	<u>29,230,411</u>
<b>Earnings per share (EPS)</b>		
Basic and diluted EPS based on loss attributable to equity holders	(10.63p)	(2.97p)
Basic EPS after adding back above expenses	(0.94p)	(0.45p)
Diluted EPS after adding back above expenses	<u>(0.94p)</u>	<u>(0.45p)</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 7. GOODWILL

	2009	2008
	£	£
<b>Cost</b>		
At 1 April	5,549,901	3,130,056
Recognised on acquisition of MSGL	-	-
Recognised on reverse acquisition of MSPLC	-	-
Recognised on acquisition of JEP	50,527	2,419,845
<b>At 31 March</b>	<u>5,600,428</u>	<u>5,549,901</u>
<b>Impairment</b>		
At 1 April	422,041	422,041
Charge for the year	2,624,387	-
<b>At 31 March</b>	<u>3,046,428</u>	<u>422,041</u>
<b>Net Book Value</b>		
<b>At 31 March</b>	<u>2,554,000</u>	<u>5,127,860</u>

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

The carrying amount of the segments has been reduced to their recoverable amount through recognition of an impairment loss against goodwill (refer note 4). The impairment charge has arisen due to the change in market conditions during the year. This charge has been included in the income statement.

#### *Impairment tests for goodwill*

Goodwill is allocated to the group's cash-generating units (CGUs) identified according to operating segment.

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 annum has been assumed throughout the period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 8. INTANGIBLE ASSETS

	2009	2008
	£	£
<b>Cost</b>		
At 1 April	1,389,000	-
Recognised on acquisition of JEP	-	1,389,000
<b>At 31 March</b>	<u>1,389,000</u>	<u>1,389,000</u>
<b>Amortisation</b>		
At 1 April	60,000	-
Charge for the year	120,000	60,000
<b>At 31 March</b>	<u>180,000</u>	<u>60,000</u>
<b>Impairment</b>		
At 1 April	-	-
Impairment Charge	646,700	-
<b>At 31 March</b>	<u>646,700</u>	<u>-</u>
<b>Net Book Value</b>		
<b>At 31 March</b>	<u>562,300</u>	<u>1,329,000</u>

Intangible assets represent externally acquired trademarks, customer relationships and non-compete agreements arising from the acquisition of JEP in October 2007.

#### *Impairment tests for intangible assets*

The Group has reviewed the carrying value of intangible assets in relation to trademarks and customer relationships acquired in the light of the change in market conditions and transaction volumes and has determined that it would be prudent to write down the carrying value of its intangible assets by £646,700. This charge has been included in the income statement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 9. INVESTMENTS

<b>Non-current investments</b>	<b>2009</b>	2008
	£	£
Investments available for sale at start of year at cost	133,667	133,667
IFRS revaluation adjustment brought forward	<b>(84,098)</b>	(58,907)
Investments available for sale at start of year at fair value	<u>49,569</u>	74,760
Disposal of investments	-	-
Investments acquired	-	-
Revaluation at year end	<b>(49,569)</b>	(25,191)
<b>At 31 March</b>	<u>-</u>	<u>49,569</u>

The Group holds a number of warrants and options over shares in various companies, some unlisted, and others listed on AIM. The reduction of £35,690 in the fair value of these options during the year has been posted to the revaluation reserve. The cost of these options and warrants was £Nil. Fair value has been established by calculating the difference between the market value of the shares and the exercise price. Market value has been ascertained by reference to the market price in the case of options over shares in listed companies, or otherwise by use of other appropriate valuation techniques.

Trading investments (also known as “held for sale” investments or assets) represent investments in listed equities which present the Group with the opportunity to receive dividend income and make trading gains.

<b>Current investments</b>	<b>2009</b>	2008
	£	£
Investments held for sale at start of year at fair value	346,636	390,000
Disposal of investments	<b>(40,000)</b>	(13,333)
Investments acquired at fair value	75,000	42,673
Revaluation of investments at year end	<b>(381,636)</b>	(72,704)
Fair value of investments held for sale at end of year	<u>-</u>	<u>346,636</u>

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

The market value of the investments at 31 March 2009 was £150,732.

### 10. TRADE AND OTHER RECEIVABLES

<b>Amounts falling due within one year</b>	<b>2009</b>	2008
	£	£
Receivable from clients	-	1,806,819
Less provision for impairment of receivables from clients	-	(20,000)
Receivable from counterparties	391,870	521,951
Less provision for impairment of receivables from counterparties	<b>(117,674)</b>	(121,872)
Other receivables	63,445	24,058
Prepayments and accrued income	539,539	874,699
Corporation tax receivable	149,668	-
	<u>1,026,848</u>	<u>3,085,655</u>

Within trade and other receivables the largest debtor represents 14% 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 treating all receivables which are more than 90 days overdue as impaired.

<b>Amounts falling due after more than one year</b>	<b>2009</b>	2008
	£	£
Other receivables	150,000	150,000
	<u>150,000</u>	<u>150,000</u>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the Group's own cash at bank only. MSGL no longer holds client funds. At the previous year end MSGL held money on behalf of clients in trust in sterling and in various foreign currencies, in accordance with the client money regulations of the FSA. As these balances, as well as the associated market risk, belonged to MSGL's clients, the balances were excluded from the Consolidated Balance Sheet. As at the balance sheet date, the following client money balances were held:

	2009 £	2008 £
Sterling	-	4,934,857
US dollars	-	350,350
Euros	-	112,827
Swiss francs	-	6,186
Canadian Dollars	-	12,412
	<u>-</u>	<u>5,416,632</u>

### 12. TRADE AND OTHER PAYABLES

	2009 £	2008 £
Amounts owed to clients and other counterparties	218,780	2,142,289
Other taxes and social security	124,398	210,385
Accruals and deferred income	241,742	880,085
Other payables	141,209	134,714
	<u>726,129</u>	<u>3,367,473</u>

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.

### 13. CALLED UP SHARE CAPITAL

	2009 £	2008 £
<b>Authorised</b>		
50,000,000 1p New Ordinary shares (2008 – 50,000,000 10p ordinary shares)	500,000	5,000,000
50,000,000 9p Deferred shares (2008 – Nil)	4,500,000	-
	<u>5,000,000</u>	<u>5,000,000</u>
<b>Called up, allotted and fully paid</b>		
46,897,270 1p New Ordinary shares (2008 – 31,147,270 10p Ordinary shares)	468,973	3,114,727
31,147,270 9p Deferred shares	2,803,254	-
	<u>3,272,227</u>	<u>3,114,727</u>

The authorised share capital of MSPLC at 1 April 2008 was 50,000,000 shares of 10 pence each (£5,000,000), of which 31,147,270 (£3,114,727) were in issue. On 22 July 2008, the Company undertook a capital reorganisation which split each existing 10p ordinary share into a 1p New Ordinary share plus a 9p Deferred share. In addition the Company placed 15,750,000 New Ordinary shares of 1p each at 10 pence per share. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 14. 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 total expenses of £140,088 (£117,397) related to equity-settled share based payment transactions. The corresponding equity credit has been allocated to the share-based payment reserve. No deferred tax charge or credit has been recognised (2008: deferred tax charge £6,588).

At 31 March 2009 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	20 November 2008	24 August 2007 – 9 October 2007	30 June 2006 – 30 October 2006
<i>Exercisable two years following date of grant</i>	23 April 2010 – 19 November 2018	24 August 2009 – 8 October 2017	30 June 2008 – 29 October 2016
Number of shares	1,516,083	1,199,004	1,469,603
Exercise price per share	15.00p - 25.00p	35.00p-36.50p	29.94p
Fair value per share	0.83p - 1.15p	8.41p – 8.83p	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	7.00p	36.50p – 38.50p	14.97p-50.00p
Expected life	2.5 years	2.5 years	2.18 – 2.5 years
Expected volatility	67.4%	29.9%	29.9%
Risk free rate	3.62%	4.08% - 4.68%	4.68%
Expected dividend yield	Nil	Nil	Nil

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

EMI Share option scheme	2009		2008	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
1 April	4,129,109	31.36p	2,246,160	29.94p
Granted	1,421,083	18.11p	2,142,719	32.79p
Exercised	-	-	-	-
Forfeited	(1,365,502)	27.51p	(259,770)	30.98p
31 March	4,184,690	28.11p	4,129,109	31.36p
Exercisable	1,469,603	29.94p	-	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 14. SHARE BASED PAYMENTS (continued)

At 31 March 2009 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	24 August 2007 – 9 October 2007	30 June 2006
<i>Exercisable two years following date of grant</i>	<i>24 August 2009 – 8 October 2017</i>	<i>30 June 2008 – 29 June 2016</i>
Number of shares	549,426	501,047
Exercise price per share	35.00p-36.50p	29.94p
Fair value per share	8.41p- 8.83p	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	36.50p-38.50p	14.97p
Expected life	2.5 years	2.5 years
Expected volatility	29.9%	29.9%
Risk free rate	4.08% - 4.57%	4.68%
Expected dividend yield	Nil	Nil

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

EXSOS Share option scheme	2009		2008	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
1 April	1,356,339	33.08p	668,063	29.94p
Granted	-	-	688,276	36.13p
Exercised	-	-	-	-
Forfeited	(305,866)	32.92p	-	-
31 March	1,050,473	33.13p	1,356,339	33.08p
Exercisable	501,047	29.94p	-	-

### 15. CASH GENERATED FROM OPERATIONS

	Year ended 31 March 2009 £	Year ended 31 March 2008 £
Operating loss for the year	(4,704,804)	(1,071,193)
Adjustments for:		
Depreciation	120,734	89,623
Impairment of goodwill	2,624,387	-
Amortisation of intangible assets	120,000	60,000
Impairment of intangible assets	646,700	-
Revaluation of investments held for sale	381,636	72,704
Loss on sale of investments held-for-sale	14,840	3,333
Loss on disposal of property, plant and equipment	2,001	-
Impairment of available for sale investments	-	93,567
Share based payment expense	140,088	117,397
Changes in working capital:		
(Increase) / decrease in receivables	2,208,475	(59,112)
(Decrease) / increase in payables	(2,641,344)	(132,703)
<b>Net cash outflow from operating activities</b>	<b>(1,087,287)</b>	<b>(826,384)</b>