

Report and Financial statements

For the year ended 31 December 2005

**The Merchant International
Group Limited**

Company Number 02898956

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The Merchant International Group Limited

Company information

Directors

Peter Davies
James Poole-Robb
Stuart Poole-Robb

Secretary

Mawlaw Secretaries Limited

Registered office

20 Blackfriars Lane
London
EC4V 6HD

Auditors

Mazars LLP
Times House
Throwley Way
Sutton
Surrey
SM1 4JQ

The Merchant International Group Limited

Directors' report

The directors present their report and financial statements for the year ended 31 December 2005.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Principal activity

The principal activity of the company continues to be the provision of risk assessment and risk management services. In addition it provides security support and advice around the world and assists with environmental and due diligence issues.

The company also provides strategic intelligence on non-passive, hostile and illegal events for its clients globally.

Directors

The directors set out in the table below have held office during the whole of the period from 1 January 2001 to the date of this report unless otherwise stated.

The interests of the directors holding office on 31 December 2005 in the shares of the company according to the register of directors' interests, together with those of their families, were as shown below:

	Ordinary shares of £1 each			
	Beneficial interest			
	31 December 2005		31 December 2004	
	A	B	A	B
P.M Davies	59,000		59,000	-
J. Poole-Robb	1,300		1,300	-
S.A. Poole-Robb	65,333		59,333	-

On 11 February 2002 P.M. Davies and S.A. Poole-Robb were granted options to acquire 11,500 and 23,000 Ordinary A shares of £1 each respectively, at an exercise price of £1 per share. The options expire on the tenth anniversary of the date of the grant.

The Merchant International Group Limited

Directors' report (continued)

Directors' statement

We are pleased to report that the Company had a successful year as a result of improved trading conditions and cost cutting of indirect expenses.

The Group's turnover increased by 40 percent which resulted in earnings before interest and tax of £109,978.

The Company continues to expand its client base whilst consolidating its position globally. We are currently in discussion on a number of important long-term projects which will bode well for 2007.

Auditors

Mazars LLP have signified their willingness to continue in office and a resolution proposing their re-appointment will be put to the forthcoming annual general meeting.

The financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small entities.

Approved by the board of directors on 30th OCTOBER 2006
and signed on its behalf by:

for and on behalf of
Mawlaw Secretaries Limited

Secretary

Independent Auditors' report to the shareholders of

The Merchant International Group Limited

We have audited the financial statements for the year ended 31 December 2005 which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Statement of Total Recognised Gains and Losses and related notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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 auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, whether the financial statements are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatement within it. Our responsibilities do not extend to any other information.

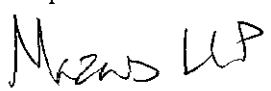
Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's and the group's affairs as at 31 December 2005 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


MAZARS LLP
CHARTERED ACCOUNTANTS
and Registered Auditors
Times House
Throwley Way
Sutton
Surrey, SM1 4JQ

30 October 2006

The Merchant International Group Limited

Consolidated Profit and loss account For the year ended 31 December 2005

	Notes	2005 £	2004 £
Turnover	2	2,415,283	1,736,991
Operating costs			
Directly attributable expenses		(715,591)	(479,491)
Administrative expenses		(1,589,714)	(1,361,157)
Operating profit/(loss)	3	109,978	(103,657)
Interest payable and similar charges		(13,534)	(16,861)
Profit/(loss) on ordinary activities before taxation		96,444	(120,518)
Tax on profit on ordinary activities	5	(49,037)	15,174
Profit/(loss) on ordinary activities after taxation		47,407	(105,344)
Minority Interests		7,959	957
Profit/(deficit) transferred to reserves		55,366	(104,387)

The company's turnover and expenses all relate to continuing operations.

The Merchant International Group Limited

Consolidated Balance sheet at 31 December 2005

	Notes	£	2005 £	£	2004 £
Fixed assets					
Intangible assets	7		33,335		20,068
Tangible assets	8		60,387		85,670
			<u>93,722</u>		<u>105,738</u>
Current assets					
Debtors	10	403,163		309,102	
Cash at bank and in hand		47,388		81,000	
		<u>450,551</u>		<u>390,102</u>	
Creditors – Amounts falling due within one year	11	(433,558)		(559,426)	
Net current assets/(liabilities)			<u>16,993</u>		<u>(169,324)</u>
Total assets less current liabilities			<u>110,715</u>		<u>(63,586)</u>
Creditors – Amounts falling due after more than one year	12		85,000		4,286
Provisions for liabilities and charges	13		4,400		2,000
Minority interests			-		4,746
Capital and reserves					
Called up share capital	14		170,425		155,959
Share premium account	15		86,426		64,727
Profit and loss account	15		(235,536)		(295,304)
Shareholders' funds			<u>21,315</u>		<u>(74,618)</u>
			<u>110,715</u>		<u>(63,586)</u>

These financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small entities.

Approved by the board of directors on 30th October 2006
and signed on their behalf by:


.....
P.M. Davies, Director

The Merchant International Group Limited

Balance sheet at 31 December 2005

	Notes	£	2005	£	£	2004	£
Fixed assets							
Intangible assets	7		10,036			20,068	
Tangible assets	8		39,033			75,098	
Investments	9		29,785			8,620	
			78,854			103,786	
Current assets							
Debtors	10	343,837			308,590		
Cash at bank and in hand		47,383			8,305		
			391,220		316,895		
Creditors – Amounts falling due within one year	11	320,707			(495,208)		
Net current assets/(liabilities)			70,513			(178,313)	
Total assets less current liabilities			149,367			(74,527)	
Creditors – Amounts falling due after more than one year	12		85,000			4,286	
Provisions for liabilities and charges	13		4,400			2,000	
Capital and reserves							
Called up share capital	14		170,425			155,959	
Share premium account	15		86,426			64,727	
Profit and loss account	15		(196,884)			(301,499)	
Shareholders' funds			59,967			(80,813)	
			149,367			(74,527)	

These financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small entities.

Approved by the board of directors on 30th October 2006
and signed on their behalf by:


P.M. Davies, Director

The Merchant International Group Limited

Consolidated statement of total recognised gains and losses For the year ended 31 December 2005

	2005	2004
	£	£
Profit/(loss) for the financial year	55,366	(104,387)
Currency translation adjustments	4,402	(5,485)
Total recognised (losses)/gains for the year	59,768	(109,872)

Reconciliation of movements in shareholders' funds

Total recognised gains/(losses) for the year	59,768	(109,872)
New share capital subscribed	36,165	4,500
Increase/(decrease) in shareholders' funds	95,933	(105,372)
Shareholders' funds at 1 January 2005	(74,618)	30,754
Shareholders' funds at 31 December 2005	21,315	(74,618)

The Merchant International Group Limited

Notes to the financial statements For the year ended 31 December 2005

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

The directors are confident that it is appropriate to prepare the accounts on the going concern basis due to the current levels of trading and action taken to reduce costs.

1.2 Basis of consolidation

The group financial statements consolidate those of the company and the subsidiary undertaking, as explained in note 9, drawn up to 31 December 2005. Profits or losses on intra-group transactions are eliminated in full.

1.3 Turnover

Turnover represents amounts receivable for services net of VAT.

1.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Fixtures, fittings and equipment	33 ¹ / ₃ % on cost
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1.5 Stocks and work in progress

Long term contract balances are stated at net cost less foreseeable losses less any applicable payments on account. The amount recorded as turnover in respect of long term contracts is ascertained by reference to the value of the work carried out to date. Attributable profit is recognised as the difference between recorded turnover and related costs.

1.6 Foreign currencies

Assets, liabilities, revenues and costs expressed in foreign currencies are translated into sterling at rates of exchange ruling on the date on which transactions occur, except for:

- i) Monetary assets and liabilities which are translated at the rate ruling at the balance sheet date (other than those in ii) below); and
- ii) transactions to be settled at a contracted rate and trading transactions covered by a related or matching forward contract which are translated at those contracted rates.

Differences arising on the translation of such items are dealt with in the profit and loss account.

The Merchant International Group Limited

Notes to the financial statements

For the year ended 31 December 2005 (continued)

1 Accounting policies (continued)

1.7 Leases

Finance leases

Assets held under hire purchase and finance leases and the related lease obligations are included at the fair value of the leased assets at the inception of the lease. Depreciation on leased assets is calculated to write off this amount on a straight-line basis over the shorter of the lease term and the useful life of the asset.

Rentals payable are apportioned between the finance charge and a reduction of the outstanding obligation for future amounts payable so that the charge for each accounting period is a constant percentage of the remaining balance of the capital sum outstanding.

Operating leases

Rentals payable under operating leases are charged on a straight-line basis over the term of the lease.

1.8 Deferred taxation

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted.

1.9 Pension costs and other post-retirement benefits

Contributions payable by the company to any pension scheme are charged to the profit and loss account in the period to which they relate.

1.10 Research and development expenditure

Research and development costs are capitalised within intangible fixed assets where they can be identified with a specific project anticipated to produce future benefits, and are amortised on the straight line basis over the anticipated life of the benefits arising from the completed project. Deferred research and development costs are reviewed annually, and where future benefits are deemed to have ceased or to be in doubt, the balance of any related research and development is written off to the profit and loss account.

2 Segmental information

Of the group's total turnover 74% (2004: 71%) is attributable to the UK market, 14 % (2004: 25%) to the European Union market and 12% (2004: 4%) to other overseas markets.

The Merchant International Group Limited

Notes to the financial statements

For the year ended 31 December 2005 (continued)

3 Operating profit

	2005 £	2004 £
Operating profit is stated after charging		
Depreciation of tangible assets	55,973	59,620
Amortisation	15,587	10,032
Hire of other assets – operating leases	4,985	4,970
Directors' remuneration	262,601	211,215
Audit fee	5,600	5,400
	<u> </u>	<u> </u>

4 Staff costs

	2005 £	2004 £
Wages and salaries	829,033	672,920
Social security costs	93,533	78,044
Pension costs	-	390
	<u> </u>	<u> </u>
	922,566	751,354
	<u> </u>	<u> </u>
Average number of staff		
Directors	5	6
Executives	11	10
Administration and sales	5	5
	<u> </u>	<u> </u>
	21	21
	<u> </u>	<u> </u>

The Merchant International Group Limited

Notes to the financial statements

For the year ended 31 December 2005 (continued)

5 Tax on profit on ordinary activities

	2004 £	2003 £
Domestic current year tax		
U.K. corporation tax	45,414	-
Foreign corporation tax		
Foreign corporation tax	1,223	1,280
Current tax charge	46,637	1,280
Deferred tax		
Timing differences	2,400	(16,454)
Tax on profit/(loss) on ordinary activities	49,037	(15,174)
Factors affecting the tax charge for the year:		
Profit/(loss) on ordinary activities before taxation	96,444	(120,518)
Profit/(loss) on ordinary activities before taxation multiplied by standard rate of U.K. corporation tax of 30% (2004:19%)	28,933	(22,898)
Effect of:		
Non deductible expenses	13,212	5,082
Depreciation and amortisation	19,688	12,731
Capital allowances	(3,513)	(2,394)
Differences in overseas tax rates	1,191	606
Losses	(12,874)	8,153
Current tax charge	46,637	1,280

6 Profit for the financial year

The parent company has taken advantage of Section 230 of Companies Act 1985 and has not included its own profit and loss account in these financial statements. The group profit for the year includes a surplus of £104,615 (2004: deficit £107,499) which is dealt with in the financial statements of the company.

The Merchant International Group Limited

Notes to the financial statements

For the year ended 31 December 2005 (continued)

7 Intangible fixed assets

	Goodwill £	The group Development costs £	Total £	The company development costs £
Cost				
At 1 January 2005	-	30,100	30,100	30,100
Additions	29,124	-	29,124	-
31 December 2005	29,124	30,100	59,224	30,100
Amortisation				
At 1 January 2005	-	10,032	10,032	10,032
Depreciation charge	5,825	10,032	15,857	10,032
At 31 December 2005	5,825	20,064	25,889	20,064
Net book values				
At 31 December 2005	23,299	10,036	33,335	10,036
At 31 December 2004	-	20,068	20,068	20,068

Development costs represent expenditure on individual projects which is carried forward when its future recoverability can be seen with reasonable assurance and is amortised in line with sales from the related projects

Goodwill arising on the acquisition of MIG Consulting GmbH in 2005 is being amortised over 5 years. In the opinion of the directors, this represents a prudent estimate of the period over which the group will derive economic benefit from the good will existing at the date of acquisition.

The Merchant International Group Limited

Notes to the financial statements

For the year ended 31 December 2005 (continued)

8 Tangible fixed assets

	The group fixtures, fittings & equipment £	The company fixtures, fittings & equipment £
Cost		
At 1 January 2005	221,392	206,920
Additions	30,690	13,702
	<hr/>	<hr/>
At 31 December 2005	252,082	220,622
	<hr/>	<hr/>
Depreciation		
At 1 January 2005	135,722	131,822
Charge for the year	55,973	49,767
	<hr/>	<hr/>
At 31 December 2005	191,695	181,589
	<hr/>	<hr/>
Net book values		
At 31 December 2005	60,387	39,033
	<hr/>	<hr/>
At 31 December 2004	85,670	75,098
	<hr/>	<hr/>

9 Investments

The company	Shares in group undertakings £
At 31 December 2004	8,620
Additions	21,165
	<hr/>
At 31 December 2005	29,785
	<hr/>

The company held 75% of the ordinary share capital of MIG Consulting GmbH (a company incorporated in Austria) until 27 December 2005 when the remaining 25% of the ordinary share capital was acquired. The acquisition cost was met by the issue of 8,466 shares in Merchant International Group Limited. The nature of this business is to provide strategic research and corporate intelligence to a range of clients.

The Merchant International Group Limited

Notes to the financial statements

For the year ended 31 December 2005 (continued)

9 Investments (continued)

No adjustments were made to the book values of the major categories of assets and liabilities acquired in arriving at fair values which were as follows:

	Book value £	Fair value at date of acquisition £
Fixed assets		
Tangible	21,354	21,354
Current assets		
Debtors	117,954	117,954
Cash at bank	5	5
Total asset	<u>139,313</u>	<u>139,313</u>
Liabilities		
Trade creditors	68,577	68,577
Other creditors	102,902	102,902
Total liabilities	<u>171,479</u>	<u>171,479</u>
Net liabilities	<u>(32,166)</u>	<u>(32,166)</u>

10 Debtors

	The group		The company	
	2005 £	2004 £	2005 £	2004 £
Trade debtors	343,673	249,710	248,743	181,274
Other debtors	-	4,194	-	-
Amounts owed by group undertakings	-	-	58,628	72,118
Prepayments and accrued income	59,490	55,198	36,466	55,198
	<u>403,163</u>	<u>309,102</u>	<u>343,837</u>	<u>308,590</u>

The Merchant International Group Limited

Notes to the financial statements

For the year ended 31 December 2005 (continued)

11 Creditors – Amounts falling due within one year

	The group		The company	
	2005 £	2004 £	2005 £	2004 £
Bank overdraft	63,201	141,047	-	141,047
Bank loans	4,285	8,570	4,285	8,570
Trade creditors	72,931	212,429	62,982	212,429
Taxation and social security	235,070	137,053	218,732	90,664
Other creditors	22,159	-	-	-
Accruals and deferred income	35,912	60,327	34,708	42,498
	<u>433,558</u>	<u>559,426</u>	<u>320,707</u>	<u>495,208</u>

The bank loans and overdraft are secured by the assets of the company.

12 Creditors – Amounts falling due after more than one year

	The group		The company	
	2005 £	2004 £	2005 £	2004 £
Bank loans	-	4,286	-	4,286
Directors loan	85,000	-	85,000	-
	<u>85,000</u>	<u>4,286</u>	<u>85,000</u>	<u>4,286</u>

Included in the above total loans and overdrafts are the following amounts falling due:

In one year or less	67,486	149,617	4,285	149,617
Between one and two years	85,000	4,286	85,000	4,286
Between two and five years	-	-	-	-
In five years or more	-	-	-	-
	<u>152,486</u>	<u>153,903</u>	<u>89,285</u>	<u>153,903</u>

13 Provisions for liabilities and charges

	The group		The company	
	2005 £	2004 £	2005 £	2004 £
Deferred tax				
Accelerated capital allowances	4,400	10,000	4,400	10,000
Losses	-	(8,000)	-	(8,000)
	<u>4,400</u>	<u>2,000</u>	<u>4,400</u>	<u>2,000</u>

The Merchant International Group Limited

Notes to the financial statements

For the year ended 31 December 2005 (continued)

14 Share Capital

	2005 £	2004 £
Authorised		
210,000 A Ordinary shares of £1 each	210,000	210,000
90,000 B Ordinary shares of £1 each	90,000	90,000
	<u>300,000</u>	<u>300,000</u>
Allotted and called up		
Fully paid		
133,999/119,533 A Ordinary shares of £1 each	133,999	119,533
90,000 B Ordinary shares of £1 each	18,638	18,638
Called up and partly paid		
59,000 A Ordinary shares of £1 each, partly paid	17,788	17,788
	<u>170,425</u>	<u>155,959</u>

B Ordinary shares rank pari passu with A ordinary shares but do not carry any pre-emption rights.

On 27 December 2006 8,466 A ordinary shares were issued at £2.50 each to purchase an additional 25% stake in the company's subsidiary company. On the same date a further 6,000 shares were issued for cash at £2.50 each.

15 Share premium account and reserves

	Share premium account £	Profit and loss account £
The group		
At 1 January 2005	64,727	(295,304)
Currency translation adjustments	-	4,402
Retained profit for the year	-	55,366
Shares issued	21,699	-
	<u>86,426</u>	<u>(235,536)</u>
At 31 December 2005		
The company		
At 1 January 2005	64,727	(301,499)
Retained profit for the year	-	104,615
Shares issued	21,699	-
	<u>86,426</u>	<u>(196,884)</u>
At 31 December 2005		

The Merchant International Group Limited

Notes to the financial statements

For the year ended 31 December 2005 (continued)

16 Pension costs

The company makes contributions to defined contribution pension schemes. The assets of the schemes are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company and amounted to £Nil (2004: £390). At 31 December 2005, contributions totalling £Nil (2004: £ Nil) are included in creditors.

17 Related party transactions

During the year Madfish Music Limited, of which J. Poole-Robb was both a director and shareholder, provided services totalling £17,500 (2004: £14,625) to the company. These services were provided on an arms length basis and no amount was outstanding at the balance sheet date.

18 Operating lease commitments

At 31 December 2005 the company was committed to paying the following annual amounts under non-cancellable operating leases.

	2005 Land and Buildings £	2005 Office Equipment £	2004 Land and Buildings £	2004 Office Equipment £
Operating leases which expire				
Within one year	-	-	58,987	-
Within two years		1,407	-	4,104
After 5 years	84,640	-	-	-
	<u>84,640</u>	<u>1,407</u>	<u>58,987</u>	<u>4,104</u>