MERCHANT HOUSE
GROUP PLC

Registered Number: 04034645

Financial Statements

For the year ended 31 December 2008

Contents

CORPORATE DIRECTORY

Directors	Martin Eberhardt (Chairman) James Holmes
Secretary	Hugh Fleming
Registered Office	Aldermary House 15 Queen Street London EC4N 1TX
Nominated Adviser	Shore Capital and Corporate Limited Bond Street House 14 Clifford Street London W1S 4JU
Broker	Shore Capital Stockbrokers Limited Bond Street House 14 Clifford Street London W1S 4JU
Solicitors	McGuire Woods LLP 50 Broadway London SW1H 0BL
Auditors	Sawin & Edwards 15 Southampton Place London WC1A 2AJ
Registrars	Share Registrars Limited Craven House West Street Farnham Surrey, GU9 7EN
Bankers	Lloyds TSB Bank Plc St Paul's Branch 15 Cheapside London EC2V 6AJ Anglo Irish Bank Corporation Plc 10 Old Jewry London EC2R 8DN
Company Registration Number	04034645

CHAIRMAN'S STATEMENT

for the year ended 31 December 2008

I present the report and accounts for the year ended 31st December 2008.

Revenues of £41,668 (2007: £535,559) reflect the very challenging market place we faced in 2008.

The loss for the year of £1,113,872 (2007: loss of £916,765) reflects this lower level of activity together with the costs of restructuring and re-positioning the business. Furthermore, as a result of the market conditions at the time, the Company's investment portfolio has decreased substantially in value and under the accounting rules, and this decrease is reflected in the losses.

Net debt at 31 December 2008 was £381,278 (2007: £333,174) reflecting the Group's actions in conserving cash by reducing overheads, selling investments and procuring additional investment.

As a result, Total Equity at 31 December 2008 amounted to £(618,380) (2007: (£286,792)). As previously reported the Group received an investment in October 2008 in order to develop the broking and fundraising capacity of the wholly owned subsidiary, Merchant Capital as previously outlined. The Group has developed an Institutional broking and fundraising capacity and is currently working on several fundraisings. Where possible, retainers are charged. In addition, Merchant Capital has been appointed as Corporate broker to two new AIM clients which brings retainer income. There is a strong pipeline of potential opportunities but fundraising remains challenging in the current environment.

At the end of 2008, Merchant Capital recruited a small private client broking team who have built a client database and have recently raised funds for Merchant Corporate Recovery plc financed through the issue of a corporate bond with an equity kicker; the funds raised will be used to make advances and take an equity interest in carefully selected turnaround situations which have a solid debtor or asset base, well in excess of the amount to be advanced, with a charge being taken over the assets of the companies concerned. Such companies will have established management, a successful product or service and clearly defined reasons for needing additional resources as well as an agreed implementation plan. I am pleased to report that, to date, we have already raised and banked an amount in excess of the minimum set of £500,000 and that the first prospective transaction has been identified. Due Diligence is currently being undertaken. Merchant House Group itself will be a minority shareholder in Merchant Corporate Recovery Plc and further details of this will be announced in due course. A number of other opportunities of similar or larger size are being considered as well as the launch of a second capital protected bond to the same and wider client base. The Directors are of the view that, given the state of the market, this is a sensible area in which to position the Group, alongside its more traditional work. In order to pursue the strategy, a number of turnaround specialists have been brought in as Consultants to assist Merchant Corporate Recovery plc.

In addition, we are reviewing a number of specific opportunities inter alia in stockbroking and derivatives, fund management/administration and foreign exchange and would hope to make a further announcement in the relatively near future Shareholders will be updated on these opportunities in due course.

There has been a lot of work undertaken both during the period under review and subsequently to position the Group for growth and increase shareholder value. Clearly market conditions remain difficult and whilst real progress has been made particularly since December 2008, the directors recognise that the company is growing from a low base of historic losses. The board will need to keep cashflow and overheads under constant review whilst seeking to continue the ongoing growth in the business. I would like to thank the staff for the enormous efforts made in achieving the progress identified both during the year and subsequently.

The re positioning of the Group and recruitment of new team members together with the recovering revenue for Merchant Capital in the first five months of the current year are positive developments. The Directors will continue to seek suitable acquisitions using the company's listed shares as well as joint venture partners and teams looking for a base from which to operate and retain a larger share of the revenue they generate than may be possible in larger firms

Finally, I should like to notify shareholders that we will shortly be calling an EGM to reduce the par value of the shares and to propose a name change for the Group.

Martin Eberhardt
Chairman
29 June 2009

THE BOARD OF DIRECTORS

Martin Eberhardt

Chairman

Martin Eberhardt, ACA, (48) has been Chairman since 2005, chairs the Audit sub committee, and sits on the Remuneration sub-committee. A chartered accountant by training, Martin is highly experienced in Mergers and Acquisitions, both in the private and public arena as well as professional senior management. Martin holds several public and private executive directorships including being CEO of AIM listed Hollywood Media Services Plc and a director of Merchant Capital Limited.

James Holmes

Chief Executive Officer

James Holmes (36) is Chairman and formerly Chief Executive (2003-2007) of Europasia Education Plc whose board implemented a new strategy that restored profit. The Company is a China focused investment business initially investing in education, and in 2004 running the largest non government training programme in the world. It is now focusing on the commodities, energy and environment sectors in China. He was appointed Chairman of Merchant Capital in October 2007 in order to implement a revised strategy for the business. In addition, James has been Principal of Management International School of Business since 1999, at the time the youngest Business School Principal in the country.

He is Chairman and one of the founders of AIM listed Hollywood Media Services Plc, a TV Location facilities and catering company in the UK. He is a Director of AIM listed Microcap Equities Plc and of a number of private companies.

James chairs the Remunerations sub committee, and sits on the Audit sub-committee.

REPORT OF THE DIRECTORS

for the year ended 31 December 2008

The Directors present their report together with the audited Group financial statements for the year ended 31 December 2008.

Principal Activities

The principal activity of the Company and the Group during the year was the provision of financial services. The company is domiciled in England and was incorporated in England and Wales.

Business Review and Future Developments

A review of the Group's businesses and future developments is contained within the Chairman's Statement on page 3.

Results and Dividends

The loss for the year on ordinary activities before tax amounted to £1,113,872 (2007: £916,765). The Directors do not recommend the payment of a dividend.

Share Capital

Details of the share capital are given in note 19 to the financial statements.

Directors and their Interests

The Directors who served during the year and their interests in the Company's Ordinary Shares were as follows:

	At 31 December 2008 No.	At 31 December 2007 No.
M Eberhardt	-	-
J Holmes	-	-

Warrants

Warrants previously granted to Lochinsh Limited (formerly Stokewell Limited), of which James Holmes is a Director, have now lapsed.

Directors' interests in contracts are disclosed in Note 21 of the financial statements.

Share Options

There are no Options granted to the Directors.

REPORT OF THE DIRECTORS *Continued*

Substantial Shareholdings

On 31 December 2008 the following shareholders held 3% or more of the issued share capital of the Company:

	No. of Ordinary Shares	Percentage of issued Ordinary Shares
Pershing Nominees Limited	24,727,714	22.92
Prism Nominees Limited	21,963,000	20.36
Liberty Capital Limited	16,666,667	15.45
Jim Nominees Limited	16,153,809	14.98
Dartington Portfolio Nominees Limited	10,105,000	9.37

Corporate Governance

As Merchant House Group Plc is not a fully listed Company, it is not required to comply with the Code of Best Practice published by the Committee on the Financial Aspects of Corporate Governance ("the Combined Code"). However, the Directors do place a high degree of importance on ensuring that high standards of corporate governance are maintained. As a result, most of the relevant principles set out in the Combined Code have been adopted during the period and these are summarised below.

Directors

The Company supports the concept of an effective Board leading and controlling the Company. The Board is responsible for approving the Company's policy and strategy. It meets frequently and receives and reviews on a timely basis financial and operating information appropriate to being able to discharge its duties. Directors are free to seek any further information they consider necessary. Directors submit themselves for re-election every two years by rotation in accordance with the Articles of Association. Given the size of the Company it is not considered appropriate that there should be a separate nomination committee. It is the view of the Board that the appointment of new Directors should be a matter for consideration by the Board as a whole. All appointments to the Board are subject to confirmation by shareholders at the following AGM.

Relations with Shareholders

The Company values the views of its shareholders and recognises their interest in the Company's strategy and performance. The Board is available to discuss current events with its institutional and private shareholders and positively encourages attendance at General Meetings.

Audit Committee

The principal functions of the Audit Committee are to review the interim and annual financial statements before they are presented to the Board and to review the effectiveness of the Company's internal control and risk management systems. The Audit Committee comprises the Company's Directors. Currently it comprises M Eberhardt (Chairman) and J Holmes.

Remuneration Committee

The Remuneration Committee comprises the Company's Directors. Currently it comprises J Holmes (Chairman) and M Eberhardt. Details of the Directors' emoluments are set out in the financial statements. However, there is no separate report of the Remuneration Committee. It is the Company's policy that the remuneration of Directors should be commensurate with services provided by them to the Company.

REPORT OF THE DIRECTORS *Continued*

Internal Financial Control and Risk Management

The Directors are responsible for the Company's system of internal financial control and also for identifying the major business risks faced by the Company. The system of internal financial control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss. In fulfilling these responsibilities, the Board has reviewed the effectiveness of the system of internal financial control. The Directors have established procedures for planning, budgeting and for monitoring, on a regular basis, the performance of the Company and for determining the appropriate course of action to manage any major business risks. The Board has considered the need for an internal audit function but has decided the size of the Company does not justify it at present. However it will keep the decision under annual review.

Supplier Payment Policy

Provided there are no disputes concerning the supply of goods or services it is the Company's normal practice to pay suppliers in accordance with their agreed terms and conditions. At the period end, trade creditors amounted to 135 days. (2007: 103 days)

Political and Charitable Donations

There were no political or charitable donations made during the year.

Indemnity Provision

Directors and officers insurance is in place to indemnify the directors against liabilities arising from the discharge of their duties as directors of the company.

Financial Instruments and Risk Management

See Note 22 to the financial statements.

Principal Risks and Uncertainties

The principal risk is that uncertainty in the credit market will have an adverse impact on the group's trading activities to the extent that this involves arranging finance and the matter dealt with in the final paragraph of Note 1 on page 23.

Auditors

Sawin & Edwards have indicated their willingness to continue in office. A resolution to reappoint Sawin & Edwards for the ensuing year will be proposed at the Annual General Meeting in accordance with Section 489 of the Companies Act 2006.

Post Balance Sheet events

There are no post balance sheet events.

H. Fleming

By order of the Board

Hugh Fleming
Company Secretary
29 June 2009

STATEMENT OF DIRECTORS' RESPONSIBILITIES

for the year ended 31 December 2008

The Directors are responsible for preparing the annual report and financial statements in accordance with the applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the Financial Statements in accordance with International Financial Reporting Standards and applicable law. The Financial Statements are required by law to give a true and fair view of the state of affairs of the Company and of the Group at the end of the year and of the Group's profit or loss for the year then ended.

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;

- 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 presume that the group 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 Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. The Directors are also responsible for safeguarding the assets of the Company and of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that so far as they are aware, there is no relevant audit information (as defined by section 234ZA of the Companies Act 1985) of which the Company's auditors are unaware. They have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

for the year ended 31 December 2008

We have audited the Group and parent company financial statements of Merchant House Group Plc for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Cash Flow Statements and the related notes numbered 1 to 26. These financial statements have been prepared in accordance with the accounting policies set out therein.

This report is made solely to the Group's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Group'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 Group and Company and the Group'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
The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted for use in the European Union are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Group and Company has not kept proper accounting records, if we have not received all of the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Group and Company is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Opinion
We conducted our audit in accordance with International Standards on Auditing (United Kingdom & 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 Group'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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS *continued*

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union, of the state of the Group and the Company's affairs as at 31 December 2008 and of the Group's loss for the year then ended and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.
- the information given in the Directors report is consistent with the financial statements.

Emphasis of Matter – going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Group and Company's ability to continue as a going concern. The Group incurred a net loss of £1,113,872 for the year ended 31 December 2008. The financial statements have been prepared on a going concern basis. In applying the going concern basis, the directors have considered the current financial position of the Group and Company, its trading prospects and the financial support provided by Liberty Capital, an investor in the Company. They have considered all of the above factors in relation to a period of at least the next 12 months. Taking all these factors into account, the directors have concluded that it remains appropriate to prepare the financial statements on a going concern basis. This indicates the existence of material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

Sawin & Edwards

15 Southampton Place
London
WC1A 2AJ

Sawin & Edwards
Chartered Accountants
& Registered Auditors

29 June 2009

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2008

	Note	Year to 31 December 2008 £	Year to 31 December 2007 £
Revenue	2	**41,668**	535,559
Cost of sales		**(42,143)**	(168,261)
Gross (loss)/profit		**(475)**	367,298
Administrative expenses		**(671,814)**	(1,084,533)
Loss on disposal of associate		**(137,822)**	-
Exceptional expenses	3	**-**	(414,338)
Impairment of associate		**(67,492)**	-
Impairment of intangible assets		**(88,496)**	-
Other operating income		**27,770**	33,804
Realised (losses)/ gains on current asset investments		**(11,287)**	295,458
Unrealised loss on current asset investments		**(41,040)**	(29,483)
(Loss) from operations	4	**(990,656)**	(831,794)
Share of operating loss in associate undertakings		**(107,222)**	(65,161)
Finance expense		**(27,170)**	(30,964)
Investment income		**11,176**	11,154
(Loss) Before Taxation		**(1,113,872)**	(916,765)
Income tax expense	7	**-**	-
(Loss) for the financial period		**(1,113,872)**	(916,765)
(Loss) per share (pence)	9	**(1.28p)**	(2.12p)
Diluted loss per share (pence)	9	**(0.39p)**	(1.27p)

The Group has no recognised gains or losses other than the results for the year as set out above. The Company has taken advantage of Section 230 of the Companies Act 1985 not to publish its income statement.

CONSOLIDATED BALANCE SHEET

31 December 2008

	Note	2008 £	2007 £
ASSETS			
Non Current Assets			
Intangible assets	11	-	-
Property, plant and equipment	12	**3,461**	8,484
Investment in associate undertakings	10	-	17,112
		3,461	25,596
Receivables falling due after one year	13	-	50,000
Current Assets			
Trade and other receivables	14	**89,517**	191,959
Cash and cash equivalents	15	**97,783**	134,826
Investments	16	**10,100**	36,625
Total current assets		**197,400**	363,410
TOTAL ASSETS		**200,861**	439,006
EQUITY AND LIABILITIES			
Current Liabilities:			
Trade and other payables	17	**399,587**	296,012
Non current liabilities: Convertible loans	18	**419,654**	429,786
		819,241	725,798
Equity and Reserves			
Called up share capital	19	**539,350**	271,733
Convertible loan notes	18	**48,346**	38,214
Share premium		**1,005,924**	501,389
Retained Earnings		**(2,212,000)**	(1,098,128)
Total Equity		**(618,380)**	(286,792)
TOTAL LIABILITIES		**200,861**	439,006

These financial statements were approved by the Directors on 29 June 2009 and are signed on their behalf by:

J Holmes
Director

COMPANY BALANCE SHEET
31 December 2008

	Note	2008 £	2007 £
ASSETS			
Non Current Assets			
Intangible assets	11	-	-
Property, plant and equipment	12	**3,461**	8,484
Investment in group undertakings	10	**115,001**	89,252
		118,462	97,736
Receivables falling due after one year	13	-	50,000
Current Assets			
Trade and other receivables	14	**38,156**	150,347
Cash and cash equivalents	15	**2,036**	73,546
Investments	16	**10,100**	36,625
Total current assets		**50,292**	260,518
TOTAL ASSETS		**168,754**	408,254
EQUITY AND LIABILITIES			
Current Liabilities:			
Trade and other payables	17	**375,837**	333,573
Non current liabilities: Convertible loans	18	**419,654**	429,786
		795,491	763,359
Equity and Reserves			
Called up share capital	19	**539,350**	271,733
Convertible loan notes	18	**48,346**	38,214
Share premium		**1,005,924**	501,389
Retained Earnings		**(2,220,357)**	(1,166,441)
Total Equity		**(626,737)**	(355,105)
TOTAL LIABILITIES		**168,754**	408,254

These financial statements were approved by the Directors on 29 June 2009 and are signed on their behalf by:

J Holmes
Director

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2008

Group

	Convertible Loan Note	Share Capital	Share Premium	Retained Earnings	Total
	£	£	£	£	£
Balance at 1 January 2008	38,214	271,733	501,389	(1,098,128)	(286,792)
Share issue	-	267,617	504,535	-	772,152
Movement in equity	10,132	-	-	-	10,132
Loss for the period	-	-	-	(1,113,872)	(1,113,872)
Balance at 31 December 2008	48,346	539,350	1,005,924	(2,212,000)	(618,380)

Company

	Convertible Loan Note	Share Capital	Share Premium	Retained Earnings	Total
	£	£	£	£	£
Balance at 1 January 2008	38,214	271,733	501,389	(1,166,441)	(355,105)
Share issue	-	267,617	504,535	-	772,152
Movement in equity	10,132	-	-	-	10,132
Loss for the period	-	-	-	(1,053,916)	(1,053,916)
Balance at 31 December 2008	48,346	539,350	1,005,924	(2,220,357)	(626,737)

STATEMENT OF CHANGES IN EQUITY *Continued*

for the year ended 31 December 2007

Group

	Convertible Loan Note £	Share Capital £	Share Premium £	Special Reserve £	Retained Earnings £	Total £
Balance at 1 January 2007	62,215	194,233	280,500	52,742	(234,105)	355,585
Conversion loan notes	-	8,000	24,000	-	-	32,000
Exercise of warrants	-	17,000	51,000			68,000
Share issue	-	52,500	145,889	-	-	198,389
Transfer	-	-	-	(52,742)	52,742	-
Movement in equity	(24,001)	-	-	-	-	(24,001)
Loss for the period	-	-	-	-	(916,765)	(916,765)
Balance at 31 December 2007	38,214	271,733	501,389	-	(1,098,128)	(286,792)

Company

	Convertible Loan Note £	Share Capital £	Share Premium £	Special Reserve £	Retained Earnings £	Total £
Balance at 1 January 2007	62,215	194,233	280,500	52,742	(542,253)	47,437
Conversion loan notes	-	8,000	24,000	-	-	32,000
Exercise of warrants	-	17,000	51,000			68,000
Share issue	-	52,500	145,889	-	-	198,389
Transfer	-	-	-	(52,742)	52,742	-
Movement in equity	(24,001)	-	-	-	-	(24,001)
Dividend	-				111,000	111,000
Loss for the period	-	-	-	-	(787,930)	(787,930)
Balance at 31 December 2007	38,214	271,733	501,389	-	(1,166,441)	(355,105)

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2008

	Note	2008 £	2007 £
Reconciliation of operating loss to net cash (outflow) from operating activities			
Operating loss		**(990,656)**	(831,794)
Loan written off		**-**	107,020
Investment transfer		**-**	30,060
Associated company losses written off		**(139,666)**	-
Decrease in trade & other receivables		**152,442**	155,128
Increase in trade & other payables		**92,514**	6,288
Depreciation		**6,589**	9,783
Impairment of associate		**49,505**	-
Impairment of intangible assets		**88,496**	-
Loss on disposal		**-**	184
Realised loss/(gain) on current asset investments		**11,287**	(295,458)
Unrealised Loss on current asset investments		**41,040**	29,483
Net cash outflow from operating activities		**(688,449)**	(789,306)
Investing Activities			
Interest received		**11,176**	11,154
Purchase of investments		**(260,400)**	(389,291)
Sales of investments		**234,598**	753,438
Purchase of plant & equipment		**(1,566)**	(1,761)
Sale of plant & equipment		**-**	1,053
Investment in associate		**51**	(51)
Net cashflow from investing activities		**(16,141)**	374,542
Financing activities			
Proceeds from share issue		**683,656**	266,389
Interest paid		**(27,170)**	(30,964)
Net cash inflow from financing activities		**656,486**	235,425
(Decrease) in cash & cash equivalents		**(48,104)**	(179,339)
Reconciliation of net cash flow to movement in net debt			
(Decrease) in cash in the period		**(48,104)**	(179,339)
Conversion loan note into ordinary shares		**-**	32,000
Movement in year		**(48,104)**	(147,339)
Net (debt) brought forward		**(333,174)**	(185,835)
Net (debt) carried forward		**(381,278)**	(333,174)

CONSOLIDATED CASH FLOW STATEMENT *Continued*

Reconciliation of net cash flow to movement in net (debt)/funds	**Year to 31 December 2008**	Year to 31 December 2007
	£	£
(Decrease) in cash in the period	**(48,104)**	(179,339)
Conversion loan note into ordinary shares	-	32,000
Movement in year	**(48,104)**	(147,339)
Net (debt)/funds at 1 January	**(333,174)**	(185,835)
Net (debt) at 31 December	**(381,278)**	(333,174)

Analysis of changes in net (debt)	**At 1 January 2008**	**Cashflows**	**Other non cash changes**	**At 31 December 2008**
	£	**£**	**£**	**£**
Cash at bank and in hand	132,808	(35,025)	-	97,783
Bank overdraft	-	(10,816)	-	(10,816)
Cash held in stockbroker's client accounts	2,018	(2,263)	-	(245)
Cash and cash equivalents	134,826	(48,104)	-	86,722
Debt due after one year:				
Secured loan notes	(408,000)	-	-	(408,000)
Unsecured loan notes	(60,000)	-	-	(60,000)
	(333,174)	(48,104)	-	(381,278)

Other non cash changes

During the year the company incurred development expenditure cost amounting to £88,496 and the consideration was paid in shares.

COMPANY CASH FLOW STATEMENT

for the year ended 31 December 2008

	2008 £	2007 £
Reconciliation of operating loss to net cash (outflow) from operating activities		
Operating loss	**(1,035,483)**	(764,180)
Loan written off	-	107,020
Decrease in trade & other receivables	**162,191**	199,239
Increase in trade & other payables	**31,203**	39,882
Depreciation	**6,589**	9,783
Investment transfer	-	30,061
Impairment of associate	**57,188**	-
Impairment of intangible assets	**88,496**	-
Loss on disposal	-	184
Realised loss/(gain) on current asset investments	**11,287**	(295,459)
Unrealised Loss on current asset investments	**41,040**	29,483
Net cash outflow from operating activities	**(637,489)**	(643,987)
Investing Activities		
Interest received	**8,737**	7,213
Purchase of investments	**(260,400)**	(389,291)
Sales of investments	**234,598**	753,438
Purchase of plant & equipment	**(1,566)**	(1,761)
Sale of plant & equipment	-	1,053
Investment in subsidiary/associate	**(82,937)**	(51)
Net cashflow from investing activities	**(101,568)**	370,601
Financing activities		
Proceeds from share issue	**683,656**	266,389
Dividend received	-	111,000
Interest paid	**(27,170)**	(30,964)
Net cash inflow from financing activities	**656,486**	346,425
(Decrease)/increase in cash & cash equivalents	**(82,571)**	73,039

	At 1 January 2008 £	Cashflows	At 31 December 2008 £
Cash at bank and in hand	71,528	(69,492)	2,036
Bank overdraft	-	(10,816)	(10,816)
Cash held in stockbroker's client accounts	2,018	(2,263)	(245)
Cash and cash equivalents	73,546	(82,571)	(9,025)

Other non cash changes

During the year the company incurred development expenditure cost amounting to £88,496 and the consideration was paid in shares.

1. Accounting policies

Basis of accounting
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The financial statements have been prepared on the historical cost basis except that certain financial instruments are accounted for at fair values. The principal accounting policies adopted are set out below.

New standards and interpretations not applied

The IASB has issued the following relevant standards which are not effective and have not been early adopted for these financial statements:

	Effective date
IAS 1 (revised) Presentation of Financial Statements	1 January 2009
IAS 16 (amended) Property, plant and equipment	1 January 2009
IAS 23 (revised) Borrowing costs	1 January 2009
IAS 27 (amended) Consolidated and separate financial statements	1 January 2009
IAS 38 (amended) Intangible Assets	1 January 2009
IFRS 7 (revised) Financial Instruments	1 January 2009

The directors do not anticipate that adoption of these standards will have a material impact on the Group and Company's financial position or performance although IAS 1 (revised) will change the manner in which the statements are presented.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. 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.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

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

1. Accounting policies (continued)

Investments in Associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interest in those associates are not recognised.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

Revenue recognition

The group recognises turnover from its corporate finance activities when it has performed the services corresponding to agreed fees. Income from retainer fees is recognised when these fall due under the contracted terms. Management fees are recognised at the end of each month for management and office services provided to the subsidiary undertaking in the normal course of business. Work in progress is only recognised where the fees are earned on a time charged basis.

Intangible assets

Intangible assets consist of development expenditure and are capitalised at cost. At each balance sheet date, the Group reviews the carrying amounts of its intangible assets 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).

Property, plant and equipment

Office equipment and fixtures and fittings are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight line method on the following bases:

Office equipment	3 years straight line
Fixtures and fittings	3 years straight line

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised as income.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement, because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

1. Accounting policies (continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the original recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

No recognition has been made for the deferred tax asset arising in respect of current losses as the directors are of the opinion that this may not be realisable in the foreseeable future.

Financial instruments
Financial assets and financial liabilities are recognised on the balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Trade receivables
Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Investments
Non current asset investments are carried at cost less provisions for any permanent diminution in value. Current asset investments are carried at market value.

Negative Goodwill
Negative goodwill arising on the acquisition of the associate undertaking has been written off to the income statement in the year of acquisition.

Cash and cash equivalents
Cash and cash equivalents comprise cash held at bank and on short term deposits.

Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangement 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

Convertible loan notes
Convertible loan notes are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in equity, where material.

Issue costs are apportioned between the liability and equity components of the convertible loan notes based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity, where material.

Trade payables
Trade payables are not interest bearing and are stated at their nominal value.

Equity instruments
Equity instruments issued by the Company are recorded at the proceeds received. The costs of issuing new equity are charged against the share premium account.

Pensions
The Company does not operate a pension scheme but does make defined contributions to the personal pension schemes of two Directors.

Operating lease agreements
Rentals applicable to operating leases, where substantially all the benefits and risks of ownership remain with the lessor, are charged to the income statement on a straight line basis over the term of the lease.

Foreign currencies
Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. The resulting exchange gain or loss is dealt with in the income statement.

Going concern
The financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

The financial statements have been prepared on a going concern basis. In applying the going concern basis, the directors have considered the current financial position of the Group and Company, its trading prospects and the financial support provided by Liberty Capital, an investor in the Company. They have considered all of the above factors in relation to a period of at least the next 12 months. Taking all these factors into account, the directors have concluded that it remains appropriate to prepare the financial statements on a going concern basis. This indicates the existence of material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. Turnover

Segmental analysis for the group is given below:

Geographical

	2008	2007
	£	£
Turnover		
United Kingdom	**41,668**	524,008
Asia	**-**	11,551
	41,668	535,559
(Loss) before tax		
United Kingdom	**(1,006,650)**	(833,237)
Asia	**-**	(18,367)
	(1,006,650)	(851,604)

Net Liabilities

	2008	2007
	£	£
United Kingdom	**(618,380)**	(286,792)
Asia	**-**	-
	(618,380)	(286,792)

3. Exceptional expenses

During the year exceptional expenses totalling £Nil (2007:£414,338) were incurred. In 2007, exceptional expenses totalling £162,550 were incurred in writing off trade debts in connection with Merchant Capital Ltd clients, writing off a loan amounting to £107,020 made in the year to a third party and providing against a loan amounting to £144,768 made in the year to an associate.

4. Operating loss

Group operating loss is stated after charging/(crediting):

	2008	2007
	£	£
Auditors' remuneration - as auditors	**36,849**	25,293
- taxation compliance	**750**	750
Operating leases - land and building	**147,388**	119,780
- other	**4,357**	4,825
Office services income received	**(22,853)**	(27,500)
Depreciation	**6,589**	9,783

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. Particulars of employees

The average number of staff employed by the group during the financial year amounted to:

	2008 No.	2007 No.
Number of administrative staff	**1**	2
Number of professional staff	**2**	3
	3	5

The aggregate payroll costs of the above (excluding directors) were:

	2008 £	2007 £
Wages and salaries	**45,000**	217,562
Social security costs	**6,177**	27,741
	51,177	245,303

6. Directors' emoluments

The Directors' aggregate emoluments in respect of qualifying services were:

	2008 £	2007 £
Directors' emoluments	**65,000**	157,245
Social security costs	**7,931**	18,367
Healthcare	**1,887**	4,825
Pension – defined contribution	**(3,600)**	18,925
Compensation for loss of office	**6,500**	6,500
	77,718	205,862
Highest paid director - Emoluments	**35,000**	67,677
- Pension	**-**	6,000
	35,000	73,677

The number of Directors to whom benefits accrued under money purchase pension schemes was Nil (2007: 2).

NOTES TO THE FINANCIAL STATEMENTS *Continued*

7. Taxation

	2008 £	2007 £
Analysis of tax year in charge		
Corporation Tax	-	-
Factors affecting tax charge for the year		
Loss on ordinary activities before tax – group	**(1,136,011)**	(851,604)
Loss on ordinary activities multiplied by standard rate of UK corporation tax of 28% (2007:30%)	**(318,083)**	(255,481)
Effects of:		
Expenses not deductible for tax purposes	**54,362**	52,360
Increase in UK tax losses	**263,721**	203,121
Tax charge	-	-
Potential UK Tax credits available multiplied by standard rate of UK corporation tax of 28% (2007:30%)	**(1,198,320)**	(934,599)

No recognition has been made of the deferred tax asset in respect of the losses shown above as the directors are of the opinion that this may not be realisable in the foreseeable future.

8. Loss attributable to members of the parent Company

The loss before dividends dealt with in the accounts of the parent company was £(1,053,916) (2007: (£787,930).

9. Loss per share

	2008	2007
Loss per ordinary share (pence)	**(1.28p)**	(2.12p)
Diluted loss per ordinary share (pence)	**(0.39p)**	(1.27p)

The loss per share has been calculated on the net basis on the group deficit excluding associate for the financial year, after taxation, of £(1,113,872) (2007: £(916,765)) using the weighted average number of ordinary shares in issue of 86,870,886 (2007: 43,196,600).

Diluted earnings per share have been calculated using the weighted average number of ordinary shares in issue, diluted for the effect of loan conversion rights, convertible preference shares and warrants. There were unexercised loan conversion rights, convertible preference shares and warrants on 200,066,667 shares in existence at the year end (2007: 33,900,000).

10. Non Current Asset Investments (Unlisted)

	Group 2008 £	Company 2008 £	Group 2007 £	Company 2007 £
Subsidiary Undertakings				
Cost				
At 1 January	-	50,001	-	50,001
Additions	-	65,000	-	-
At 31 December	-	115,001	-	50,001
Net Book Value				
At 31 December	-	115,001	-	50,001
Associate Undertakings				
Cost				
At 1 January	17,112	39,251	82,222	39,200
Additions	-	17,988	51	51
Disposals	(51)	(51)	-	-
Losses in associated undertaking written off	139,666	-	-	-
Impairment	(49,505)	(57,188)	-	-
Share of loss in associate undertaking	(107,222)	-	(65,161)	-
At 31 December	-	-	17,112	39,251
Net Book Value				
At 31 December	-	115,001	17,112	89,252

The investment in associate undertakings consists of a 49% holding in Merchant House Finance Limited, a company incorporated in the UK, which was acquired during 2006 and whose principal business is that of asset leasing; and a 49% holding in Merchant Corporate Limited, a company incorporated in the UK on 6 September 2007, which was acquired during 2007 and whose principal business is that of share trading.

On 30 April 2008, Merchant House Group Plc disposed of its entire interest in Merchant Corporate Limited, incurring a loss on disposal of £137,822

At 31 December 2008, following an impairment review, the directors considered that an impairment adjustment of £49,505 (Company:£57,188) should be recognised in relation to the investment in Merchant House Finance Limited.

NOTES TO THE FINANCIAL STATEMENTS *Continued*

10. Non Current Asset Investments (Unlisted) *Continued*

Subsidiary undertaking	Country of Incorporation	Holding	Proportion of voting shares held	Nature of business
Merchant Capital Ltd	UK	Ordinary Shares	100%	Corporate Finance
Merchant House Securities Ltd	UK	Ordinary Shares	100%	Not Trading
Aldermary Secretaries Ltd	UK	Ordinary Shares	100%	Not Trading
Aldermary Securities	UK	Ordinary Shares	100%	Not Trading

The results and net assets of the subsidiaries for the year ended 31 December 2008 are as follows:

	Profit/(Loss) in year	Net assets at 31 December 2008
Merchant Capital Limited	(£82,095)	£123,357
Merchant House Securities Limited	-	£1
Aldermary Secretaries Limited	-	£1
Aldermary Securities	-	£1

The above subsidiaries have all been included in the consolidated financial statements.

11. Intangible assets - Company and Group

Development expenditure	
Cost	**£**
Additions	88,496
Balance carried forward	88,496
Impairment	
Additions	88,496
Balance carried forward	88,496
Net book value	-

The development expenditure amounting to £88,496, the consideration of which was paid in shares, relates to the cost of a share trading platform which the company planned to acquire. At 31 December 2008, following an impairment review, the directors considered that an impairment adjustment of £88,496 was recognised in relation to this development expenditure.

NOTES TO THE FINANCIAL STATEMENTS *Continued*

12. Non current assets - Property, plant and equipment

Company and Group	Office Equipment £	Fixtures and Fittings £	Total £
Cost			
At 1 January 2008	27,564	11,972	39,536
Additions	1,566	-	1,566
At 31 December 2008	29,130	11,972	41,102
Depreciation			
At 1 January 2008	19,786	11,266	31,052
Charge for the year	5,883	706	6,589
At 31 December 2008	25,669	11,972	37,641
Net book value			
At 31 December 2008	3,461	-	3,461

Company and Group	Office Equipment £	Fixtures and Fittings £	Total £
Cost			
At 1 January 2007	31,368	11,357	42,725
Additions	1,145	615	1,760
Disposals	(4,949)	-	(4,949)
At 31 December 2007	27,564	11,972	39,536
Depreciation			
At 1 January 2007	14,855	10,126	24,981
Charge for the year	8,643	1,140	9,783
Disposals	(3,712)	-	(3,712)
At 31 December 2007	19,786	11,266	31,052
Net book value			
At 31 December 2007	7,778	706	8,484

NOTES TO THE FINANCIAL STATEMENTS *Continued*

13. Receivables: due after one year

Company and Group	2008 £	2007 £
Rent deposit	-	50,000

14. Current assets - trade and other receivables

	Group 2008 £	Company 2008 £	Group 2007 £	Company 2007 £
Trade receivables	**14,625**	**5,956**	40,197	1,856
Other receivables	**22,826**	**21,482**	5,023	5,023
Prepayments and accrued income	**52,066**	**10,718**	54,499	51,228
Amount owed by associate undertaking	-	-	92,240	92,240
	89,517	**38,156**	191,959	150,347

15. Current Assets - Cash and Cash Equivalents

	Group 2008 £	Company 2008 £	Group 2007 £	Company 2007 £
Cash held at bank and in hand	**97,783**	**2,036**	132,808	71,528
Cash held in stockbrokers' client accounts	-	-	2,018	2,018
	97,783	**2,036**	134,826	73,546

16. Current assets - Investments

Quoted investments held as current assets are as follows:

	Group 2008 £	Company 2008 £	Group 2007 £	Company 2007 £
Investments at fair value	**10,100**	**10,100**	36,625	36,625

The fair value of these investments is based on quoted market price.

NOTES TO THE FINANCIAL STATEMENTS *Continued*

17. Trade and other payables: Amounts falling due within one year

	Group 2008 £	Company 2008 £	Group 2007 £	Company 2007 £
Trade payables	**200,743**	**198,993**	173,775	165,735
Other payables	**70,261**	**70,261**	31,986	31,986
Accruals	**113,505**	**91,505**	47,920	41,420
Taxation and social security	**4,262**	**4,262**	42,331	33,612
Amount owed to group undertaking	-	-	-	60,820
Bank overdraft	**10,816**	**10,816**	-	-
	399,587	**375,837**	296,012	333,573

18. Convertible Loan notes - Group and Company

	Unsecured Convertible Loan Notes £	Secured Convertible Loan Notes £	Total Convertible Loan Notes £
Balance at 1 January 2008	**60,000**	**408,000**	**468,000**
Balance at 31 December 2008	**60,000**	**408,000**	**468,000**

Total convertible loan notes amounting to £468,000 (2007: £468,000) are analysed as:

	2008 £	2007 £
Liability component	**419,654**	429,786
Equity component	**48,346**	38,214
	468,000	468,000

The Unsecured and Secured convertible loan notes 2010 bear interest at a floating rate of 100 basis points above Barclays Bank plc base rate, and are convertible at the option of the holder in units of 2p into Ordinary 0.5p shares at a price of 2p per share at any time up to 25 August 2010. The Unsecured and Secured 2010 loans are repayable on or before 25 August 2010, unless previously converted. The Secured 2010 loan is secured by a first debenture over all the assets and undertaking of the Company. Full details of the Unsecured and Secured loans 2010 were set out in the circular to shareholders dated 1 August 2005. The Unsecured mezzanine loan bears interest at 1% per month and is convertible at the option of the holder in units of £1 into ordinary shares at a price of 0.5p per share

NOTES TO THE FINANCIAL STATEMENTS *Continued*

19. Share capital – Group and Company

	2008 £	2007 £
Authorised share capital:		
2,362,247,600 (2007: 2,087,247,600) Ordinary shares of 0.5p each	**11,811,238**	10,436,238
4,000,000 (2007: Nil) Preference shares of £1 each	**4,000,000**	-
	15,811,238	10,436,238

At an Extraordinary General Meeting of the Company held on 7 April 2008 resolutions were passed increasing the company's authorised share capital from £10,436,238 to £15,811,238 by the creation of 275,000,000 ordinary shares of 0.5p each and 4,000,000 8 per cent. convertible cumulative redeemable preference shares of £1.00 each. The convertible preference shares are convertible into ordinary shares at any time after 30 June 2011 at an effective conversion price of 2.5p per share. Full details of the convertible preference shares were set out in the circular to shareholders dated 12 March 2008.

	2008		2007	
	No.	£	No.	£
Allotted, called up and fully paid				
Ordinary shares of 0.5p each	**107,870,148**	**539,350**	54,346,600	271,733

On 3 January 2008 the company issued 8,100,000 Ordinary 0.5p shares at a price of 1.8p per share and on 10 January 2008 9,000,000 Ordinary 0.5p shares at a price of 1.8p per share and on 17 January 2008 the company issued 10,000,000 Ordinary 0.5p shares at a price of 1.8p per share, raising a combined £460,157 after expenses

On 20 August 2008 the company issued 5,056,881 Ordinary 0.5p shares at a price of 1.75p per share as consideration for an acquisition.

On 18 September 2008 the Company issued 4,700,000 Ordinary 0.5p shares at a price of 0.5p per share, in respect of a conversion notice for £23,500 of unsecured convertible loan notes.

On 29 October 2008, the Company issued 16,666,667 Ordinary 0.5p shares at a price of 1.5p per share, realising £200,000 after expenses.

The Company has warrants in issue as follows:

Number	Exercise Price	Date from which Exercisable	Latest Expiry Date
16,666,667	0.5p	29 October 2008	29 October 2013

20. Ultimate controlling party

The Company has not been notified of any immediate controlling party.

21. Related party transactions

During the year ended 31 December 2008, M Eberhardt was also a director of Merchant Corporate Ltd, Hollywood Media Services Plc, and Catering 4 Events Plc.

During the year ended 31 December 2008, J Holmes was also a director of Stokewell Ltd, Ricen B Plc (formerly Stokewell Ventures Plc), Hollywood Media Services Plc, and Microcap Equities Plc.

At the year end current asset investments held by the company and investments held as inventories by an associate undertaking of the Group include the following at market value:

	2008	2007
	£	£
Hollywood Media Services Plc*	-	343,688
Microcap Equities Plc	**5,100**	-

*Relate to investments held as inventories by an associate company in which Merchant House Group had a 49% holding.

During the year transactions took place as follows:

	Sales (Gross) 2008	Sales included in debtors at year end 2008	Sales (Gross) 2007	Sales included in debtors at year end 2007
	£	£	£	£
Ricen B Plc	-	**61,746**	-	61,746
Catering 4 Events Plc	**387**	**387**	-	-
Hollywood Media Services Plc	**5,569**	**5,569**	372,184**	1,175
Merchant House Finance Ltd	**17,988**	-	28,813	-

**Includes £371,000 which relate to sales made by Merchant Corporate Limited, an associate company.

Merchant House Finance Ltd is an associate company.

During the year Merchant House Group Plc advanced Merchant Corporate Ltd, an associated company, a total of £113,196 in cash (2007: £237,060 in shares and cash), of which £Nil (2007: £92,240) remained outstanding at the period end. At 31 December 2008, a loan balance due from Merchant Corporate Ltd amounting to £277,488 (2007: £144,769) was written off. During the year Merchant House Group Plc loaned to Prop Trading and Investments Ltd, a company in which it held a minority interest, a total of £Nil (2007: £150,000 in shares); the value of the loan at the period end was £Nil (2007: £107,019 which has been fully provided against).

NOTES TO THE FINANCIAL STATEMENTS *Continued*

21. Related party transactions continued

During the year ended 31 December 2008, Merchant House Group Plc received £55,800 (2007: £258,060) in management fees and £Nil (2007: £111,000) as dividend from Merchant Capital Limited, a wholly owned subsidiary. At the period end the balance it owed to Merchant Capital Ltd was £Nil (2007: £60,820).

On 2 May 2008, Merchant Capital Limited issued 7,000,000 0.5p ordinary shares fully paid, on 9 October 2008 it issued 3,000,000 0.5p ordinary shares fully paid and on 25 November 2008 3,000,000 0.5p ordinary shares fully paid to the parent company, Merchant House Group Plc.

On 30 April 2008, Merchant House Group Plc disposed of its entire interest in Merchant Corporate Limited, incurring a loss on disposal of £137,822

During the year Merchant Capital Ltd incurred Group indebtedness from one of its clients The C4E Group Plc of £161,515 (2007: £Nil). At the year end the amount due to Merchant House Group Plc was £Nil (2007: £Nil). During the year The C4E Group Plc advanced Merchant House Group Plc loans totalling £98,000 (2007: £22,000). At the year end the amount due to Catering 4 Events Plc was £5,015 (2007: £22,000).

On 11 and 18 January 2008 MHG announced that a total of 27,100,000 of the Company's ordinary shares had been placed at an average price of 1.797p per share, raising £487,133. Both Merchant Corporate Limited and The C4E Group Plc, of which Martin Eberhardt was a director, participated in these placings as nominees for other investors, who have paid these nominee companies in full. Martin Eberhardt does not hold, and has not held, any interest in the ordinary shares of the Company.

22. Financial instruments

The Group's principal financial instruments comprise cash and short term deposits and equity shares. Together with the issue of equity share capital and convertible loan notes, the main purpose of these is to finance the Group operations and expansion. The Group has other financial instruments such as trade receivables, inventory which consists of quoted investment and trade payable which arise directly from normal trading.

The Group has not entered into any derivative or other hedging instruments.

The Company holds shares as current investments. In addition the Company also deals in shares. Share trading is accounted for at the trade date.

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and these are summarised below.

Interest rate risks

The Company finances its operations through secured and unsecured convertible loan notes which bear interest at a floating rate of 100 basis points above Barclays Bank Plc base rate.

The Company also finances its operations through the use of cash deposits at variable rates of interest for a variety of short term periods, depending on cash requirements. The rates are reviewed regularly and the best rate obtained in the context of the Group's need.

NOTES TO THE FINANCIAL STATEMENTS *Continued*

22. Financial instruments (continued)

Liquidity risks

The Group's policy throughout the year has been to ensure that it has adequate liquidity by careful management of its working capital. The interest rate exposure of the Group's cash deposits and overdraft facility was as follows:-

	2008	2007
Sterling cash deposit	**£97,783**	£132,808

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company and Group, and arises principally from trade receivables and VAT refund due which are considered by the directors to be recoverable in full.

The carrying amounts of the financial assets recognised in the balance sheet best represents the Company and Group's maximum exposure to credit risk at the reporting date. In respect of these financial assets and the credit risk embodied within them, the Company and Group hold no collateral as security and there are no other significant credit enhancements in respect of these assets. The credit quality of all financial assets that are neither past due nor impaired is appropriate and is consistently monitored in order to identify any potential adverse changes in credit quality. There are no financial assets that have had renegotiated terms that would otherwise, without that renegotiation, have been past due or impaired.

Fair Values

The directors have given serious consideration and have reached the conclusion that there is no significant difference between book values and fair values of the assets and liabilities of the company as at 31 December 2008.

Currency risks

The Group, wherever possible invoices in sterling, but in the rare instances when the Group invoices in a foreign currency the Group does not hedge the asset and converts the currency received into sterling at the earliest opportunity.

Extent and nature of financial instruments

The Group held the following financial assets at the year end:

	2008	2007
	£	£
Trade and other receivables	**89,517**	191,959
Investments held as current assets	**10,100**	36,625
Cash and cash equivalents	**97,783**	134,826
Total	**197,400**	363,410

NOTES TO THE FINANCIAL STATEMENTS *Continued*

22. Financial instruments (continued)

Short-term deposits are held at Anglo Irish Bank Corporation Plc, Lloyds TSB Plc and Custodian client money bank accounts. The weighted average rate of interest earned on these deposits was 5.25% (2007: 5.7 %). No funds are held on fixed rate terms.

The Group held the following financial liabilities at the year end:

	2008 £	2007 £
Trade and other payables – current	**399,587**	296,012
Other payables - non current	**419,654**	429,786
	819,241	725,798

23. Operating lease commitments – Group and Company

The total rentals of committed operating leases at 31 December 2008 are as follows:

Company and Group	2008 Land and Buildings	2008 Other	2007 Land and Buildings	2007 Other
Within 1 year	-	**£4,230**	£21,102	£4,230
Within 1-2 years	-	**£1,058**	-	£1,058

24. Post Balance Sheet event

There are no post balance sheet events.

25. Contingent liability

There is a contingent liability to pay a former director £13,000 under the terms of a compromise agreement.

There is a contingent liability in respect of premises dilapidations amounting to £41,543 inclusive of VAT.

26. Associate Undertakings

Merchant House Finance Limited

In November 2007 the Company acquired 49% of the issued £1 ordinary share capital of Merchant House Finance Limited, a company incorporated in the UK and whose principal business is that of asset leasing.

The Company's share of the results, assets and liabilities of Merchant House Finance Limited group at 31 December 2008 is not disclosed because the directors of Merchant House Group Plc have carried out an impairment review and written down its investment in Merchant House Finance Limited to £Nil. The company has a history of losses and there is no indication or evidence that the company will incur a profit in the future.

Merchant Corporate Limited

On 6 September 2007 the Company acquired 49% of the issued £1 ordinary share capital of Merchant Corporate Limited, a company incorporated in the UK and whose principal business is that of share trading.

On 30 April 2008, Merchant House Group Plc disposed of its entire interest in Merchant Corporate Limited, incurring a loss on disposal of £137,822.

The Company's share of the results, assets and liabilities of Merchant Corporate Limited at 30 April 2008 is as follows:

	2008
	£
Income	531,326
Loss before tax	107,222
Taxation	-
Loss after tax	107,222
Current assets	126,866
Current liabilities	(266,481)
	(139,615)