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**REPORT OF THE DIRECTORS AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007
FOR
MERCHANT INNS PLC**

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MERCHANT INNS PLC

CONTENTS OF THE FINANCIAL STATEMENTS **for the year ended 30 June 2007**

	Page
Company Information	1
Report of the Directors	2
Report of the Independent Auditors	5
Profit and Loss Account	7
Statement of Total Recognised Gains and Losses	8
Balance Sheet	9
Cash Flow Statement	10
Notes to the Cash Flow Statement	11
Notes to the Financial Statements	13
Trading and Profit and Loss Account	21

MERCHANT INNS PLC
COMPANY INFORMATION
for the year ended 30 June 2007

DIRECTORS:

R R A Breare
M J Chicken
A Taraz

SECRETARY

Property Secretaries Limited

REGISTERED OFFICE:

35 Vine Street
LONDON
EC3N 2AA

REGISTERED NUMBER:

03872646 (England and Wales)

AUDITORS:

Griffins
Chartered Accountants & Registered Auditor
Griffins Court
24-32 London Road
NEWBURY
Berkshire
RG14 1JX

MERCHANT INNS PLC

REPORT OF THE DIRECTORS for the year ended 30 June 2007

The directors present their report with the financial statements of the company for the year ended 30 June 2007

PRINCIPAL ACTIVITY

The principal activity of the company in the year under review was that of the acquisition, development and operation of freehold pubs in strategic locations

REVIEW OF BUSINESS

The results for the year and financial position of the company are as shown in the annexed financial statements

The results reflect another year of considerable development for the company as set out below. The increased trading loss was the inevitable outcome of two of the company's principal assets, the Horse and Groom and the Black Boy both being closed for several weeks for substantial refurbishment and redevelopment work.

The refurbishment of the Horse and Groom with the addition of five bedrooms and of the Black Boy with a new conservatory style extension have both been completed on time and on budget. These pubs reopened in March and April respectively after the closures that these works necessitated and are now trading profitably and above our projections.

The addition of an adjacent 12 bedroom block at the Carnarvon Arms was completed in July - on budget and just a few days later than originally planned. Bookings for these rooms since opening give us considerable confidence that our expectations of trading will be met. In the meantime, the pub (which includes 11 existing bedrooms) has continued to trade well ahead of budget.

On 25 June 2007 the company completed the purchase of the Talbot Hotel near Ripley, Surrey for a consideration of £3.8 million. This coaching inn, which currently has ten rooms and planning permission for a further 30 bedrooms, is situated close to the strategic M25/A3 interchange and has significant all-round potential for growth. The acquisition was funded in full by a loan from a potential investor.

On 11th May 2007 the Mermaid was let under a tenancy agreement for a premium of £45,000, the board having concluded that it could not be developed as anticipated due to planning restrictions and was unlikely to be capable of profitable operation in the Merchant Inns style.

All of the company's properties were valued by external valuers as at 31 July 2007. These valuations have been incorporated in the attached financial statements.

At 30 June 2007, as in previous years, the company had net current liabilities as is normal for companies trading with high tangible fixed assets such as freehold pub companies. The increase in net current liabilities in the year is due to the acquisition of the Talbot being made with short-term funding from a potential investor.

The company has also arranged further funding from the potential investor for working capital. On this basis, as well as a letter of support from Robert Breare, the directors consider it appropriate to prepare the financial statements on the going concern basis.

DIVIDENDS

The directors do not recommend a dividend for the year ended 30 June 2007.

EVENTS SINCE THE END OF THE YEAR

Information relating to events since the end of the year is given in the notes to the financial statements.

MERCHANT INNS PLC

REPORT OF THE DIRECTORS for the year ended 30 June 2007

DIRECTORS

The directors during the year under review were

R R A Breare
M J Chicken
A Taraz

The beneficial interests of the directors holding office in the issued share capital of the company were as follows

At 30 June 2007

	Ordinary £0 05	Deferred £0 05
R R A Breare	2,128,225	126
M J Chicken	30	135
A Taraz	28	126

At 30 June 2006

	Ordinary £0 05	Deferred £0 05
R R A Breare	2,128,225	126
M J Chicken	30	135
A Taraz	28	126

As permitted by s310 (3) of the Companies Act 1985, the company has maintained insurance cover on behalf of the officers of the company indemnifying them against certain liabilities that may be incurred by them in relation to the company

COMPANY'S POLICY ON PAYMENT OF CREDITORS

It is the company's policy to negotiate terms with suppliers and to adhere to those terms. At the balance sheet date the number of days purchases of the company represented by trade creditors was 41

SUBSTANTIAL SHAREHOLDINGS

The following shareholders had beneficial interests in the issued voting shares of the company

	2007	2006
RRA Breare	39.8%	39.8%
M Horton	19.5%	19.5%
Giltspur Nominees Limited	5.4%	5.4%
MC Leslie	3.7%	3.7%

The directors are not aware of any other shareholdings in the company representing 3% or more of the company's issued voting share capital

MERCHANT INNS PLC

REPORT OF THE DIRECTORS for the year ended 30 June 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the financial statements in accordance with 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting 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 profit or loss of the company for that period. In preparing these 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,
- 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.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors 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, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

AUDITORS

The auditors, Griffins, will be proposed for re-appointment in accordance with Section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD.



A Taraz - Director

Date

8/10/07

REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF MERCHANT INNS PLC

We have audited the financial statements of Merchant Inns PLC for the year ended 30 June 2007 on pages seven to twenty. These financial statements have been prepared under 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 the 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 auditors' 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out on page four.

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 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 Report of the Directors is consistent with the financial statements.

In addition, we 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 other transactions is not disclosed.

We read the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit 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.

**REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF
MERCHANT INNS PLC**

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 June 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Report of the Directors is consistent with the financial statements



Griffins
Chartered Accountants & Registered Auditor
Griffins Court
24-32 London Road
NEWBURY
Berkshire
RG14 1JX

Date

8/11/07

MERCHANT INNS PLC

PROFIT AND LOSS ACCOUNT
for the year ended 30 June 2007

	Notes	2007 £	2006 £
TURNOVER		1,679,836	879,313
Cost of sales		<u>563,520</u>	<u>305,161</u>
GROSS PROFIT		1,116,316	574,152
Administrative expenses		<u>2,057,639</u>	<u>1,416,707</u>
		(941,323)	(842,555)
Other operating income		<u>39,014</u>	<u>5,000</u>
OPERATING LOSS	3	(902,309)	(837,555)
Exceptional items	4	<u>-</u>	<u>449,382</u>
		(902,309)	(388,173)
Interest receivable and similar income		<u>319</u>	<u>-</u>
		(901,990)	(388,173)
Interest payable and similar charges	5	<u>346,868</u>	<u>142,577</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(1,248,858)	(530,750)
Tax on loss on ordinary activities	6	<u>-</u>	<u>-</u>
LOSS FOR THE FINANCIAL YEAR AFTER TAXATION		<u>(1,248,858)</u>	<u>(530,750)</u>

CONTINUING OPERATIONS

None of the company's activities were acquired or discontinued during the current year or previous year

The notes form part of these financial statements

MERCHANT INNS PLC

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 30 June 2007

	2007	2006
	£	£
LOSS FOR THE FINANCIAL YEAR	(1,248,858)	(530,750)
Gains on revaluation of property	<u>2,210,938</u>	<u>77,409</u>
TOTAL RECOGNISED GAINS AND LOSSES		
RELATING TO THE YEAR	<u>962,080</u>	<u>(453,341)</u>

NOTE OF HISTORICAL COST PROFITS AND LOSSES

The difference between the results as disclosed in the profit and loss account and the results on an unmodified historical cost basis is not material

MERCHANT INNS PLC

BALANCE SHEET

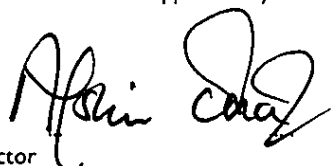
30 June 2007

	Notes	2007		2006	
		£	£	£	£
FIXED ASSETS					
Tangible assets	9		11,043,744		3,768,667
CURRENT ASSETS					
Stocks	10	44,992		30,261	
Debtors	11	331,622		68,502	
Cash at bank and in hand		<u>49,589</u>		<u>3,775</u>	
		426,203		102,538	
CREDITORS					
Amounts falling due within one year	12	<u>8,333,642</u>		<u>4,007,378</u>	
NET CURRENT LIABILITIES			<u>(7,907,439)</u>		<u>(3,904,840)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			3,136,305		(136,173)
CREDITORS					
Amounts falling due after more than one year	13		<u>2,310,398</u>		<u>-</u>
NET ASSETS/(LIABILITIES)			<u><u>825,907</u></u>		<u><u>(136,173)</u></u>
CAPITAL AND RESERVES					
Called up share capital	15		1,019,154		1,019,154
Share premium	16		884,960		884,960
Revaluation reserve	16		2,288,347		77,409
Capital redemption reserve	16		332,714		332,714
Profit and loss account	16		<u>(3,699,268)</u>		<u>(2,450,410)</u>
SHAREHOLDERS' FUNDS	20		<u><u>825,907</u></u>		<u><u>(136,173)</u></u>

The financial statements were approved by the Board of Directors on

8/10/07

and were signed on its behalf by



A Taraz - Director

MERCHANT INNS PLC

CASH FLOW STATEMENT
for the year ended 30 June 2007

	Notes	2007		2006	
		£	£	£	£
Net cash inflow/(outflow) from operating activities	1		130,464		(245,577)
Returns on investments and servicing of finance	2		(346,549)		(142,577)
Capital expenditure	2		<u>(5,254,575)</u>		<u>(2,128,567)</u>
			<u>(5,470,660)</u>		<u>(2,516,721)</u>
Financing	2		<u>5,453,050</u>		<u>2,378,334</u>
Decrease in cash in the period			<u><u>(17,610)</u></u>		<u><u>(138,387)</u></u>
<hr/>					
Reconciliation of net cash flow to movement in net debt	3				
Decrease in cash in the period		(17,610)		(138,387)	
Cash inflow from increase in debt		<u>(5,453,054)</u>		<u>(2,253,334)</u>	
Change in net debt resulting from cash flows			<u>(5,470,664)</u>		<u>(2,391,721)</u>
Movement in net debt in the period			<u>(5,470,664)</u>		<u>(2,391,721)</u>
Net debt at 1 July			<u>(3,301,909)</u>		<u>(910,188)</u>
Net debt at 30 June			<u><u>(8,772,573)</u></u>		<u><u>(3,301,909)</u></u>

The notes form part of these financial statements

MERCHANT INNS PLC

NOTES TO THE CASH FLOW STATEMENT
for the year ended 30 June 2007

1 RECONCILIATION OF OPERATING LOSS TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	2007	2006
	£	£
Operating loss	(902,309)	(837,555)
Depreciation charges	221,306	158,418
Profit on disposal of fixed assets	(30,870)	-
Increase in stocks	(14,731)	(22,614)
(Increase)/Decrease in debtors	(263,116)	31,632
Increase in creditors	<u>1,120,184</u>	<u>424,542</u>
Net cash inflow/(outflow) from operating activities	<u>130,464</u>	<u>(245,577)</u>

2 ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	2007	2006
	£	£
Returns on investments and servicing of finance		
Interest received	319	-
Interest paid	<u>(346,868)</u>	<u>(142,577)</u>
Net cash outflow for returns on investments and servicing of finance	<u>(346,549)</u>	<u>(142,577)</u>
Capital expenditure		
Purchase of tangible fixed assets	(5,285,445)	(2,128,567)
Sale of tangible fixed assets	<u>30,870</u>	<u>-</u>
Net cash outflow for capital expenditure	<u>(5,254,575)</u>	<u>(2,128,567)</u>
Financing		
Increase in bank loans	1,131,980	1,239,633
Increase in other loans	4,321,070	1,013,701
Share issue	-	52,083
Share premium on issue	<u>-</u>	<u>72,917</u>
Net cash inflow from financing	<u>5,453,050</u>	<u>2,378,334</u>

MERCHANT INNS PLC

NOTES TO THE CASH FLOW STATEMENT
for the year ended 30 June 2007

3 ANALYSIS OF CHANGES IN NET DEBT

	At 1/7/06 £	Cash flow £	At 30/6/07 £
Net cash			
Cash at bank and in hand	3,775	45,814	49,589
Bank overdrafts	<u>(297,625)</u>	<u>(63,424)</u>	<u>(361,049)</u>
	<u>(293,850)</u>	<u>(17,610)</u>	<u>(311,460)</u>
Debt:			
Debts falling due within one year	(3,008,059)	(3,142,656)	(6,150,715)
Debts falling due after one year	<u>-</u>	<u>(2,310,398)</u>	<u>(2,310,398)</u>
	<u>(3,008,059)</u>	<u>(5,453,054)</u>	<u>(8,461,113)</u>
Total	<u>(3,301,909)</u>	<u>(5,470,664)</u>	<u>(8,772,573)</u>

The notes form part of these financial statements

MERCHANT INNS PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2007

ACCOUNTING POLICIES

Accounting convention

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain assets and are in accordance with applicable accounting standards

Turnover

Turnover represents net invoiced sales of goods and services, excluding value added tax

Tangible fixed assets

Depreciation is calculated so as to write off the cost of an asset, less its residual value, over the useful economic life of that asset as follows

Freehold buildings	- 2%
Freehold land	- Not provided
Fixtures & fittings	- 20%

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more tax. The exception to this is that deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Hire purchase and leasing commitments

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

Going concern

The financial statements are prepared under a going concern basis. At 30 June 2007 the company had net current liabilities of £7.9m (2006 £3.9m). The majority of these current liabilities represent loans from directors or parties connected with them (in respect of which the company has received letters of support) and bank loans. The company is in discussions with an investor for further investment which if successful would resolve this position and provide a solid platform from which the company can develop. Whilst it is not possible for the directors to be certain as to the outcome of the matter mentioned above, nonetheless they believe it is appropriate for the financial statements to be prepared on a going concern basis.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

MERCHANT INNS PLC

NOTES TO THE FINANCIAL STATEMENTS - continued
for the year ended 30 June 2007

2 STAFF COSTS

	2007	2006
	£	£
Wages and salaries	902,353	516,430
Social security costs	93,377	37,323
Other pension costs	-	8,197
	<u>995,730</u>	<u>561,950</u>

The average monthly number of employees during the year was as follows

	2007	2006
Administrative staff - directors	3	3
Other staff	78	41
	<u>81</u>	<u>44</u>

3 OPERATING LOSS

The operating loss is stated after charging/(crediting)

	2007	2006
	£	£
Hire of plant and machinery	8,822	7,056
Depreciation - owned assets	221,306	158,417
Profit on disposal of fixed assets	(30,870)	-
Auditors' remuneration	12,000	12,000
	<u>-</u>	<u>-</u>

4 EXCEPTIONAL ITEMS

As a result of the valuation on the Carnarvon on 9 March 2006, previous impairment on this property was reversed

5 INTEREST PAYABLE AND SIMILAR CHARGES

	2007	2006
	£	£
Bank interest	182,616	88,197
Amortisation of finance fees	16,053	7,227
Interest payable	148,199	47,153
	<u>346,868</u>	<u>142,577</u>

6 TAXATION

Due to the fact that the company is loss making there are no tax liabilities

MERCHANT INNS PLC

NOTES TO THE FINANCIAL STATEMENTS - continued for the year ended 30 June 2007

7 DIRECTORS' EMOLUMENTS

The directors' aggregate emoluments in respect of qualifying services were

	2007 £	2006 £
Emoluments receivable	-	-

In addition to the above the following costs were incurred for services provided by entities in which the directors had an interest.

Fees for consultancy services totalling £108,000 (2006 £ 90,815) were charged by Talisman Management and Investment Limited, a company in which R R A Breare had a direct interest. Management and administration fees of £nil (2006 £190,822) were charged by Noble House Leisure Limited, a company in which R R A Breare had a direct interest.

Monitoring and administration fees of £nil (2006 £9,554) were charged by Merchant Place Corporate Finance Limited, a company controlled by M J Chicken.

Financial consultancy fees of £nil (2006 £4,415) were charged by Thompson Taraz LLP, Chartered Accountants, of which A Taraz is a partner.

8 DEFERRED TAXATION

No deferred taxation has been charged or credited to the profit and loss account during the current and previous years. The deferred taxation provided in the financial statements and the amounts not provided are as follows:

	Provided		Not Provided	
	2007 £	2006 £	2007 £	2006 £
Depreciation in excess of capital allowances	-	-	(130,000)	(63,407)
Excess tax losses	-	-	(470,000)	(301,320)
	<u>-</u>	<u>-</u>	<u>(600,000)</u>	<u>(364,727)</u>

The deferred tax asset has not been recognised as there is insufficient evidence that the assets will be recovered. The asset would be recovered if the company considered that sufficient taxable profits would arise in the future.

MERCHANT INNS PLC

NOTES TO THE FINANCIAL STATEMENTS - continued
for the year ended 30 June 2007

9 TANGIBLE FIXED ASSETS

	Freehold property £	Fixtures and fittings £	Totals £
COST OR VALUATION			
At 1 July 2006	3,510,013	583,368	4,093,381
Additions	4,953,714	331,731	5,285,445
Revaluations	2,098,387	-	2,098,387
At 30 June 2007	<u>10,562,114</u>	<u>915,099</u>	<u>11,477,213</u>
DEPRECIATION			
At 1 July 2006	31,194	293,520	324,714
Charge for year	81,357	139,949	221,306
Revaluation adjustments	(112,551)	-	(112,551)
At 30 June 2007	<u>-</u>	<u>433,469</u>	<u>433,469</u>
NET BOOK VALUE			
At 30 June 2007	<u>10,562,114</u>	<u>481,630</u>	<u>11,043,744</u>
At 30 June 2006	<u>3,478,819</u>	<u>289,848</u>	<u>3,768,667</u>

Included in cost or valuation of land and buildings is freehold land of £253,400 (2006 - £253,400) which is not depreciated

Cost or valuation at 30 June 2007 is represented by

	Freehold property £	Fixtures and fittings £	Totals £
Valuation in 2006	(18,764)	-	(18,764)
Valuation in 2007	2,098,387	-	2,098,387
Cost	<u>8,482,491</u>	<u>915,099</u>	<u>9,397,590</u>
	<u>10,562,114</u>	<u>915,099</u>	<u>11,477,213</u>

If freehold property had not been revalued it would have been included at the following historical cost.

	2007 £	2006 £
Cost	<u>8,482,491</u>	<u>3,528,776</u>
Aggregate depreciation	<u>652,442</u>	<u>576,748</u>

All freehold properties were externally valued at £10,825,000 on 31 July 2007 by Christie & Co, valuers and surveyors. The properties were valued on an open market basis, as fully-operational entities, having regard to their trading potential. In addition to the revaluation the value in the accounts includes directly attributable acquisition costs totalling £280,000.

MERCHANT INNS PLC

NOTES TO THE FINANCIAL STATEMENTS - continued
for the year ended 30 June 2007

10	STOCKS	2007	2006
		£	£
	Finished goods and goods for resale	<u>44,992</u>	<u>30,261</u>
11	DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	2007	2006
		£	£
	Trade debtors	2,891	3,629
	Other debtors	20,418	11,065
	VAT	24,669	-
	Prepayments and accrued income	<u>283,644</u>	<u>53,808</u>
		<u>331,622</u>	<u>68,502</u>
12	CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	2007	2006
		£	£
	Bank loans and overdrafts (see note 14)	959,218	2,074,208
	Other loans (see note 14)	5,552,546	1,231,476
	Trade creditors	945,348	252,148
	Social security and other taxes	304,633	91,020
	Other creditors	1,078	3,370
	Amounts due to related parties	(13,876)	72,995
	Accruals and deferred income	<u>584,695</u>	<u>282,161</u>
		<u>8,333,642</u>	<u>4,007,378</u>
13	CREDITORS AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	2007	2006
		£	£
	Bank loans (see note 14)	<u>2,310,398</u>	<u>-</u>
14	LOANS		
	An analysis of the maturity of loans is given below		
		2007	2006
		£	£
	Amounts falling due within one year or on demand		
	Bank overdrafts	361,049	297,625
	Bank loans	598,169	1,789,076
	Deferred finance issue costs	-	(19,720)
	Amortisation	-	7,227
	Other loans	<u>5,552,546</u>	<u>1,231,476</u>
		<u>6,511,764</u>	<u>3,305,684</u>

MERCHANT INNS PLC

NOTES TO THE FINANCIAL STATEMENTS - continued for the year ended 30 June 2007

14 LOANS - continued

	2007 £	2006 £
Amounts falling due between two and five years		
Bank loans - 2-5 years	<u>1,143,040</u>	<u>-</u>
Amounts falling due in more than five years		
Repayable by instalments		
Bank loans more 5 years by instalments	<u>1,167,358</u>	<u>-</u>

The bank overdrafts and bank loans are secured by charges on The Carnarvon Arms, The Mermaid Inn, The Black Boy Inn and The Horse & Groom and by a fixed and floating charge over the assets of the company

In August 2006 the company refinanced its existing loans and took out further loans to provide additional working capital. A total loan of up to £2,968,000 was agreed, to be repaid over 16 years.

15 CALLED UP SHARE CAPITAL

	2007		2006	
	Number	£	Number	£
Authorised				
Ordinary shares of £0.05 each	55,100,105	2,755,005	55,100,105	2,755,005
Deferred shares of £0.05 each	90,900,945	4,545,047	90,900,945	4,545,047
	<u>46,001,050</u>	<u>7,300,053</u>	<u>46,001,050</u>	<u>7,300,053</u>
Allotted, called up and fully paid				
Ordinary shares of £0.05 each	5,352,880	267,644	5,352,880	267,644
Deferred shares of £0.05 each	15,030,207	751,510	15,030,207	751,510
	<u>20,383,087</u>	<u>1,019,154</u>	<u>20,383,087</u>	<u>1,019,154</u>

Deferred shares do not entitle their holder to receive any dividend or distribution, nor to receive notice of or attend, speak or vote at any general meeting. On the winding up of the company the holders are entitled to receive a maximum of the amount of capital paid up on each deferred share, only after the repayment of the capital paid up on each ordinary share in the capital of the company and the payment of a further £100,000 on each such ordinary share.

Full details of the rights attaching to shares are contained in the Memorandum and Articles of the company. Copies can be obtained from Companies House, Crown Way, Maindy, Cardiff.

MERCHANT INNS PLC

NOTES TO THE FINANCIAL STATEMENTS - continued for the year ended 30 June 2007

16 RESERVES

	Profit and loss account £	Share premium £	Revaluation reserve £	Capital redemption reserve £	Totals £
At 1 July 2006	(2,450,410)	884,960	77,409	332,714	(1,155,327)
Deficit for the year	(1,248,858)	-	-	-	(1,248,858)
Property revaluation	-	-	2,210,938	-	2,210,938
At 30 June 2007	<u>(3,699,268)</u>	<u>884,960</u>	<u>2,288,347</u>	<u>332,714</u>	<u>(193,247)</u>

17 CAPITAL COMMITMENTS

At the balance sheet date the company had authorised capital expenditure of £173,708 (2006 £nil) which is not provided for in these financial statements

18 RELATED PARTY DISCLOSURES

The company has no controlling party

The company enters into transactions in the ordinary course of business with various related parties, as disclosed below

Merchant Place Corporate Finance Limited ("MPCF"), a company controlled by M J Chicken MPCF provided a loan of £343,000 (2006 £268,000) which is included in Creditors due within one year In addition, the company was charged £nil (2006 £9,555) by MPCF in respect of monitoring and administration fees The total amount due to MPCF at 30 June 2007 in respect of these services was £35,850 (2006 £35,850) A further £6,685 is owed by the Company at the year end and is included within amounts owed to related parties

Noble House Leisure Limited ("NHLL"), a company in which R R A Breare had a direct interest. during the year the company was charged £nil (2006 £190,821) for management and other services provided by NHLL At 30 June 2007 the company owed NHLL £nil (2006 £78,332)

Talisman Management and Investment Limited ("Talisman"), a company in which R R A Breare had a direct interest. during the year the company was charged £108,000 (2006 £90,815) for consultancy services provided by Talisman At 30 June 2007 Talisman loaned the company funds during the year, the amount outstanding at the balance sheet date was £121,333 (2006 £143,000) A further £192,000 (2006 £84,000) is owed at the year end and is included within accruals £16,650 is owed to the Company and is included within amounts due to related parties

Thompson Taraz LLP, Chartered Accountants, of which A Taraz is a partner during the year the company incurred financial consultancy fees from Thompson Taraz LLP of £nil (2006 £4,415) At 30 June 2007 the company owed Thompson Taraz LLP £16,440 (2006 £16,440) A further £3,195 is owed at the year end by the Company and is included within amounts owed to related parties

At the balance sheet date the company owed R R A Breare £339,929 (2006 £622,632) in the form of an unsecured loan A further £50,000 is owed at the year end and is included within accruals

MERCHANT INNS PLC

NOTES TO THE FINANCIAL STATEMENTS - continued for the year ended 30 June 2007

19 POST BALANCE SHEET EVENTS

On 6th August 2007 the company entered into an exclusivity agreement to purchase The Lambert Arms, near Watlington, Oxfordshire. The pub currently has 10 letting bedrooms and significant development potential.

In August 2007 the company entered into a further loan agreement with a potential investor to borrow up to £400,000 for capital expenditure and working capital purposes.

The company is currently in negotiations with an investor to raise further finance.

20 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2007 £	2006 £
Loss for the financial year	(1,248,858)	(530,750)
Other recognised gains and losses relating to the year (net)	2,210,938	77,409
Issue of shares (net)	-	125,000
Net addition/(reduction) to shareholders' funds	962,080	(328,341)
Opening shareholders' funds	(136,173)	192,168
Closing shareholders' funds	825,907	(136,173)

MERCHANT INNS PLC
TRADING AND PROFIT AND LOSS ACCOUNT
for the year ended 30 June 2007

	2007		2006	
	£	£	£	£
Sales		1,679,836		879,313
Cost of sales				
Purchases		<u>563,520</u>		<u>305,161</u>
GROSS PROFIT		1,116,316		574,152
Other income				
Rents received	3,014		-	
Management charges	36,000		5,000	
Deposit account interest	<u>319</u>		<u>-</u>	
		<u>39,333</u>		<u>5,000</u>
		1,155,649		579,152
Expenditure				
Rent, rates and water	57,009		54,196	
Insurance	19,477		20,445	
Light and heat	41,957		33,618	
Repairs to property	31,322		3,297	
Cutlery, crockery and glass	11,379		8,534	
Wages	902,353		516,430	
Social security	93,377		37,323	
Pensions	-		8,197	
Hire of equipment	8,822		7,056	
Management charges payable	113,901		123,625	
Telephone	22,336		7,960	
Post and stationery	27,269		13,739	
Advertising	72,733		55,497	
Travelling and subsistence	72,890		48,203	
Motor expenses	847		10,869	
IT consumables and support	2,081		-	
Repairs and maintenance	79,998		54,352	
Music and events	3,976		6,629	
Laundry and cleaning	53,282		21,561	
Staff training	3,748		424	
Other staff costs	16,227		20,857	
Security and caretaking	17,889		11,791	
Recruitment	8,608		-	
Subscriptions	346		1,518	
Sundry expenses	38,658		14,274	
Accountancy	22,136		6,271	
Stock taking fees	8,324		8,791	
Legal and professional fees	56,465		28,338	
Consultancy	-		83,501	
Auditors' remuneration	12,000		12,000	
Entertainment	10,914		12,396	
Carried forward	1,810,324	1,155,649	1,231,692	579,152

This page does not form part of the statutory financial statements

MERCHANT INNS PLC
TRADING AND PROFIT AND LOSS ACCOUNT
for the year ended 30 June 2007

	2007		2006	
	£	£	£	£
Brought forward	<u>1,810,324</u>	<u>1,155,649</u>	<u>1,231,692</u>	<u>579,152</u>
		<u>1,810,324</u>		<u>1,231,692</u>
		(654,675)		(652,540)
Finance costs				
Bank charges	56,879		26,598	
Bank interest	182,616		88,197	
Amortisation of finance fees	16,053		7,227	
Interest payable	<u>148,199</u>		<u>47,153</u>	
		<u>403,747</u>		<u>169,175</u>
		(1,058,422)		(821,715)
Depreciation				
Freehold property	81,357		56,295	
Fixtures and fittings	<u>139,949</u>		<u>102,122</u>	
		<u>221,306</u>		<u>158,417</u>
		(1,279,728)		(980,132)
Profit on disposal of fixed assets				
Freehold property		<u>30,870</u>		<u>-</u>
		(1,248,858)		(980,132)
Exceptional items				
Exceptional items		<u>-</u>		<u>449,382</u>
NET LOSS		<u>(1,248,858)</u>		<u>(530,750)</u>