MERCHANT HOUSE GROUP PLC

Financial Statements

For the year ended 31 December 2010

Company Registration Number 04034645

Contents

CORPORATE DIRECTORY

Directors	James Holmes (Chairman) Christopher Dav Martin Eberhardt (Non executive)
Secretary	Hugh Fleming
Registered Office	Aldermary House 15 Queen Street London EC4N 1TX
Nominated Adviser	Cairn Financial Advisers LLP 61 Cheapside London EC2V 6AX
Broker	Merchant Capital Limited Aldermary House 15 Queen Street London EC4N 1TX
Solicitors	McGuire Woods London LLP 15 – 19 Kingsway London WC2B 6UN
Auditors	Sawin & Edwards 15 Southampton Place London WC1A 2AJ
Registrars	Share Registrars Limited Suite E First Floor 9 Lion and Lamb Yard Farnham Surrey, GU9 7LL
Bankers	Lloyds TSB Bank Plc St Paul's Branch 15 Cheapside London EC2V 6AJ
Company Registration Number	04034645

CHAIRMAN'S STATEMENT

for the year ended 31 December 2010

I am pleased to present the report and accounts for the year ended 31 December 2010

- Profit of £1 69m before tax, which includes a profit of £1 38m attributable to the acquisition of certain assets of The Clarkson Hill Group Plc (in Administration) in December 2010 (2009 loss of £0 9m)
- 430% increase in turnover through organic growth and acquisition
- 58,000 clients who are invested through our IFAs or in our structured products (2009 10,000)
- Over £950 million of client assets under management and advice (2009 £100m)
- £350 million of gross assets in Merchant Capital
- Team of some 180 employees and advisors operating from seven offices
- Two successful acquisitions during the year
- Reviewing further acquisition opportunities

I am pleased to report on a year of considerable progress at Merchant House Group Plc ("MHG" or "the Group")

When I became Chief Executive less than three years ago, the Group was heavily loss making and had been since its formation in 2000, while several strategies to build a corporate finance business had been unsuccessful

We began by slimming down the team and making deep cuts in costs MHG then embarked on a strategy to attract teams from larger financial institutions with the Group providing the regulatory and operational infrastructure on which teams could build their businesses This strategy has so far proved successful and has allowed the Group to grow at a rapid rate by being effective at selecting and attracting the right teams The Group now comprises the following principal businesses

1 A foreign exchange proprietary trading infrastructure solution for a team of proprietary traders formerly working for major investment banks was set up in partnership with Merchant Trading LLP in 2009 Progress so far has been good, as announced on 30 June 2010 and 30 September 2010, with recurring monthly net fees earned by the Group exceeding $100,000 when daily trading exceeds a nominal of $10 0bn This partnership agreement is currently under renegotiation

2 The acquisition of two structured product books, as announced on 4 December 2009 and 28 April 2010, and the recruitment of a new structured products team to Merchant Capital Limited (the FSA regulated subsidiary of MHG) means the Group now administers £350 million of structured products and £13 million of cash for 17,000 clients Income is derived both through monthly administration fees and commission on investments made The division works with Barclays Capital, Nomura and Morgan Stanley, amongst others, to create both standard and tailored products for clients Ten new products were issued during the period under review In a poll of the top ten performing growth plans maturing in 2010 published by "Money Marketing" (31/5/2011), six were Merchant Capital products Furthermore, in the same survey, Merchant Capital ranked first and fifth in the ten top performing "kick-out" plans maturing in 2010 Since the year end, six new sales people have joined the business

3 The establishment of a Dublin based UCITS III umbrella fund began in 2009 and was successfully launched on 18 January 2010 This was described in an RNS dated 9 December 2009 Three funds were launched in the period under review, Merchant European Equities Fund, Merchant Global Resources UCITS Fund and Merchant Galaxy China Absolute Return UCITS

Fund, which, in aggregate, manage $90 0 million on which the Group charges management and performance fees Since the year-end, the Russian Phoenix UCITS Fund has been approved by the Central Bank of Ireland, a second fund is being prepared for submission and three more are in advanced discussion If each fund is approved and launched with the expected seed capital, there will be eight funds managing in excess of $200 million between them

Furthermore, the experience of developing and managing investment funds gained from the launch of the UCITS umbrella fund has led to further discussions with major institutions since the year-end in relation to the management of €500 million in non-UCITS funds and the launch of a Merchant turnaround fund based in Jersey Whilst these can only be viewed as potential opportunities, they are indicative of the benefits of the experience gained in developing the UCITS umbrella

4 Following the acquisition of certain assets from an IFA business which was in administration, MHG established Merchant House Financial Services Limited (MHFS) towards the end of 2010 and the team appointed to run the business subsequently attracted 118 advisers in early 2011 By the end of 2010, MHFS had secured in excess of 30,000 of the former IFA's clients and approximately £400 million of client assets under advice In the first few weeks of 2011, this rose to 41,000 clients and over £500 million of client funds

The IFA business was The Clarkson Hill Group Plc (in administration) (CHG) from which certain assets were purchased on 17 December 2010 These assets include the right to pipeline and trail or renewal income Other than a share owed to the administrators, which is estimated by the auditors to be £600,000, there are no additional liabilities on the income To date, £2,147,595 of pipeline and trail income has been collected from which the Group has derived profits of £1 38 million in the year ended 31 December 2010 Based on the records and statements of CHG, it is estimated by the Group that up to £850,000 of pipeline income remains to be collected The trail or renewal income is estimated at £2 million per year and is expected to continue to be paid throughout each year unless clients move to another firm

In 2010, MHG businesses were grown in two ways First, where possible, middle and back office functions were contracted out to keep MHG's costs as low cost as possible while leaving the Company in a position to scale each business without the need to increase personnel significantly Second, the board identified and implemented cross-sales synergies between the businesses as a low cost way of driving growth

In the second half of the year under review, the MHG board was strengthened with the appointment of Christopher Day as Chief Executive Christopher was MD of Dresdner Bank's Far East investment management business, where he managed operations in nine countries and was part of a team that grew assets under management from $600 million to $2,500 million At the last AGM, Martin Eberhardt stepped down at the end of his term as Chairman and I was elected by the board Christopher and I are the two executive directors and Martin is the independent non-executive director As reported above and, including the 118 independent advisers working with Merchant House Financial Services, the team is now 180 strong working from seven offices located in London (2), Cardiff, Northampton, Plymouth, Truro and Wisbech

The performance in the first half of 2011 is in line with Board expectations We are continuing to review possible acquisition opportunities in stockbroking and asset management Shareholders will be updated in due course

Aside from the possible investments, the directors are working to grow revenues while controlling costs The MHG board are of the view that the current market capitalisation does not reflect the excellent progress made both organically and by acquisition over the last three years

Shareholders should note that the accounts contain a qualification This is solely in respect of the lack of audited accounts or other up to date financial information available on two investments held by the Group One is in our books at nil value and the other has a valuation in our books based on an external, third party valuation which has been reviewed by the auditors

I would like to thank my board colleagues, senior management and the whole team for the part they have played in the turnaround of MHG, which has resulted in a solid profit, as well as shareholders who have remained with the Group during the last three years The times remain uncertain and, in a growing company, cashflow continues to need careful management, there can be no certainty of success but the board look to the future with a measure of renewed confidence

James Holmes
Executive Chairman
30 June 2011

REPORT OF THE DIRECTORS

for the year ended 31 December 2010

The Directors present their report together with the audited Group financial statements for the year ended 31 December 2010

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 2 to 4

Results and Dividends
The profit for the year on ordinary activities before tax amounted to £1,690,446 (2009 loss £915,263) The Directors do not recommend the payment of a dividend

Share Capital
Details of the share capital are given in note 17 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 2010 No.	At 31 December 2009 No.
M Eberhardt	55,645,161	-
J Holmes	53,225,805	-
C Day (appointed 31 August 2010)	62,615,706	-

Warrants

During the year warrants were issued to the Directors as follows

	Number	Date issued	Exercise price	Lapse on
M Eberhardt	45,086,998	1 September 2010	0 05p per share	31 August 2015
J Holmes	90,173,995	1 September 2010	0 05p per share	31 August 2015

Directors' interests in contracts are disclosed in Note 19 of the financial statements

Share Options
At the balance sheet date there are no Options granted to the Directors

Significant Shareholdings

On 1 June 2011 the following shareholders held 3% or more of the issued share capital of the Company

	No. of Ordinary Shares	Percentage of issued Ordinary Shares
Prism Nominees Limited	499,255 464	27 82
LL Nominees Limited	103,034,631	5 74
Jordasic Investment Holdings Limited	100,000,000	5 57
TD Waterhouse Nominees (Europe) Limited	89,996,572	5 02
Dartington Portfolio Nominees Limited	75,500,000	4 21
P Drew	69,172,932	3 85
J Keane	69,172,932	3 85
Barclayshare Nominees Limited	67,685,000	3 77
HSDL Nominees Limited	63,761,196	3 55
Peel Hunt Holdings Limited	62,828,156	3 50
P Shakeshaft	60,000,000	3 34
Alliance Trust Savings Nominees Limited	55,645,161	3 10

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

REPORT OF THE DIRECTORS *Continued*

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

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 212 days (2009 223 days)

Political and Charitable Donations
There were no political or charitable donations made during the year

Financial Instruments and Risk Management
See Note 20 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 that uncertainty resulting from government policy will affect decisions to invest in the group's products

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

Subsequent events
Subsequent events have been disclosed in note 22

By order of the Board
Hugh Fleming
Company Secretary
30 June 2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES

for the year ended 31 December 2010

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

Company law requires the Directors to prepare group and parent company financial statements for each financial year Under that law, the directors have elected to prepare the group and parent company Financial Statements in accordance with International Financial Reporting Standards and applicable law Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of the profit or loss of the group 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, and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and which disclose with reasonable accuracy at any time the financial position of the company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 2006 The Directors are also responsible for safeguarding the assets of the Company and 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 418(3) of the Companies Act 2006) 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 MEMBERS

for the year ended 31 December 2010

We have audited the Group and parent company financial statements of Merchant House Group Plc for the year ended 31 December 2010 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Cash Flow Statements and the related notes numbered 1 to 28 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company's financial statements, as applied in accordance with the provisions of the Companies Act 2006

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Group's and parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Qualified opinion arising from limitation in audit scope

The share of the profit or loss for the associated company Merchant Turnaround Plc for the period ended 31 December 2010 is not disclosed because we were unable to obtain any financial information for the purpose of our audit The financial year end of Merchant Turnaround Plc is 31 January 2011 and there are therefore no financial statements available for the period ended 31 December 2010, nor have the financial statements for the year ended 31 January 2011 yet been prepared We were unable to obtain sufficient appropriate audit evidence as to the existence of the Associate's accounting records by using other audit procedures

The share of the profit or loss for the associated company Merchant Corporate Recovery Plc for the period ended 31 December 2010 is not fully disclosed because we were only able to obtain information on the adjustment for the fair value of investments at 31 December 2010 for the purpose of the our audit The financial year end of Merchant Corporate Recovery Plc is 31 January 2011 and there are therefore no financial statements available for the period ended 31 December 2010, nor have the financial statements for the year ended 31 January 2011 yet been prepared We were unable to obtain sufficient appropriate audit evidence as to the existence of the Associate's accounting records by using other audit procedures

Except for the financial effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the results of the associated companies, in our opinion

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 December 2010 and of the Group's profit for the year then ended and
- the group financial statements have been properly prepared in accordance with IFRSs adopted by the European Union
- the parent company's financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

In respect solely of the limitation on our work relating to the two associate companies, described above

- we have not obtained all the information and explanations that we considered necessary for the purposes of our audit, and
- we are unable to determine whether adequate accounting records have been kept

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the Parent Company's financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all of the information and explanations we require for our audit

Keeley Edwards – Senior Statutory Auditor

For and on behalf of Sawin & Edwards
Statutory Auditors
15 Southampton Place
London WC1A 2AJ

30 June 2011

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2010

	Note	Year to 31 December 2010 £	Year to 31 December 2009 £
Revenue	2	**2,151,181**	404,359
Cost of sales		**(610,867)**	(59,264)
Gross profit		**1,540,314**	345,095
Surplus of fair value over the purchase cost	9	**1,915,026**	-
Administrative expenses		**(2,631,377)**	(1,279,635)
Impairment of associate		**-**	(23,700)
Other operating income		**116,481**	36,140
Realised gain on current asset investments		**-**	2,500
Unrealised (loss)/gain on current asset investments		**(4,463)**	2,210
Profit/(Loss) from operations	3	**935,981**	(917,390)
Share of operating profit in associate undertakings		**665,490**	-
Finance expense		**(7,507)**	(8,776)
Investment income		**96,482**	10,903
Profit/(Loss) Before Taxation		**1,690,446**	(915,263)
Income tax expense	6	**(80,756)**	-
Profit/(Loss) for the financial period		**1,609,690**	(915,263)
Profit/(Loss) per share (pence)	8	**0.38p**	(0 77p)
Diluted profit/(loss) per share (pence)	8	**0.07p**	(0 29p)

The Company has taken advantage of Section 408 of the Companies Act 2006 not to publish its income statement

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2010

	Year to 31 December 2010 £	Year to 31 December 2009 £
Profit/(Loss) for the year attributable to the parent's equity holders	**1,609,690**	(915,263)
Total comprehensive income/(expense) for the year attributable to the parent's equity holders	**1,609,690**	(915,263)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Note	2010 £	2009 £
ASSETS			
Non Current Assets			
Property, plant and equipment	10	**17,230**	1,844
Investment in group undertakings	9	**665,490**	-
		682,720	1,844
Current Assets			
Trade and other receivables	11	**3,434,083**	311,444
Cash and cash equivalents	12	**309,376**	5,267
Investments	13	**502,847**	507,310
Total current assets		**4,246,306**	824,021
TOTAL ASSETS		**4,929,026**	825,865
EQUITY AND LIABILITIES			
Current Liabilities:			
Trade and other payables	14	**2,933,425**	1,810,854
Convertible loan notes	14	**185,200**	449,318
	14	**3,118,625**	2,260,172
Non current liabilities:			
Convertible loan notes	16	**123,957**	-
Subordinated loan	16	**100,000**	100,000
		3,342,582	2,360,172
Equity and Reserves			
Called up share capital	17	**671,199**	542,350
Convertible loan notes	16/15	**293,043**	18,682
Share premium		**2,139,775**	1,031,924
Retained Earnings		**(1,517,573)**	(3,127,263)
Total Equity		**1,586,444**	(1,534,307)
TOTAL LIABILITIES		**4,929,026**	825,865

These financial statements were approved by the Directors on 30 June 2011 and are signed on their behalf by

J Holmes
Director

COMPANY STATEMENT OF FINANCIAL POSITION

31 December 2010

	Note	2010 £	2009 £
ASSETS			
Non Current Assets			
Property, plant and equipment	10	**17,230**	1,844
Investment in group undertakings	9	**641,001**	641,001
		658,231	642,845
Current Assets			
Trade and other receivables	11	**2,020,391**	25,389
Cash and cash equivalents	12	**4,160**	5,024
Investments	13	**2,847**	7,310
Total current assets		**2,027,398**	37,723
TOTAL ASSETS		**2,685,629**	680,568
EQUITY AND LIABILITIES			
Current Liabilities:			
Trade and other payables	14	**1,872,586**	1,785,201
Convertible loan notes	14	**185,200**	449,318
	14	**2,057,786**	2,234,519
Non current liabilities:			
Convertible loan notes	16	**123,957**	-
		2,181,743	2,234,519
Equity and Reserves			
Called up share capital	17	**671,199**	542,350
Convertible loan notes	16/15	**293,043**	18,682
Share premium		**2,139,775**	1,031,924
Retained Earnings		**(2,600,131)**	(3,146,907)
Total Equity		**503,886**	(1,553,951)
TOTAL LIABILITIES		**2,685,629**	680,568

These financial statements were approved by the Directors on 30 June 2011 and are signed on their behalf by

J Holmes
Director

Company Registration Number 04034645

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2010

Group

	Convertible Loan Note £	Share Capital £	Share Premium £	Retained Earnings £	Total £
Balance at 1 January 2010	18,682	542,350	1,031,924	(3,127,263)	(1,534,307)
Total Comprehensive Income for the year	-	-	-	1,609,690	1,609,690
Movement in Equity	274,361	-	-	-	274,361
	293,043	542 350	1,031,924	(1,517,573)	349,744
Transactions with owners recorded directly in equity					
Contribution by owners					
Share issue	-	70,992	719,015	-	790,007
Shares to be issued	-	57,857	388,836	-	446,693
Balance at 31 December 2010	293,043	671,199	2,139,775	(1517,573)	1,586,444

Company

	Convertible Loan Note £	Share Capital £	Share Premium £	Retained Earnings £	Total £
Balance at 1 January 2010	18,682	542,350	1,031,924	(3,146,907)	(1,553,951)
Total Comprehensive Income for the year	-	-	-	546,776	546,776
Movement in Equity	274,361	-	-	-	274,361
	293,043	542,350	1,031,924	(2,600,131)	(732,814)
Transactions with owners recorded directly in equity					
Contribution by owners					
Share issue	-	70,992	719,015	-	790,007
Shares to be issued	-	57,857	388,836	-	446,693
Balance at 31 December 2010	293,043	671,199	2,139,775	(2,600,131)	503,886

STATEMENT OF CHANGES IN EQUITY *Continued*

for the year ended 31 December 2010

Group

	Convertible Loan Note	Share Capital	Share Premium	Retained Earnings	Total
	£	£	£	£	£
Balance at 1 January 2009	48,346	539,350	1,005,924	(2,212,000)	(618,380)
Total Comprehensive Expense for the year	-	-	-	(915,263)	(915,263)
Movement in Equity	(29,664)	-	-	-	(29,664)
	18,682	539,350	1,005,924	(3,127,263)	(1,563,307)
Transactions with owners recorded directly in equity					
Contribution by owners					
Share issue	-	3,000	26,000	-	29,000
Balance at 31 December 2009	18,682	542,350	1,031,924	(3,127,263)	(1,534,307)

Company

	Convertible Loan Note	Share Capital	Share Premium	Retained Earnings	Total
Balance at 1 January 2009	48,346	539,350	1,005,924	(2,220,357)	(626,737)
Total Comprehensive Expense for the year	-	-	-	(926,550)	(926,550)
Movement in Equity	(29,664)	-	-	-	(29,664)
	18,682	539,350	1,005,924	(3,146,907)	(1,582,951)
Transactions with owners recorded directly in equity					
Contribution by owners					
Share issue	-	3,000	26,000	-	29,000
Balance at 31 December 2009	18,682	542,350	1,031,924	(3,146,907)	(1,553,951)

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2010

	2010 £	2009 £
Reconciliation of operating loss to net cash flow from operating activities		
Operating profit/(loss)	**935,981**	(917,390)
(Increase) in trade & other receivables	**(3,122,639)**	(221,927)
Increase in trade & other payables	**1,239,464**	1,422,328
Depreciation	**5,414**	2,082
Impairment of associate	-	23,700
Realised gain on current asset investments	-	(2,500)
Unrealised loss/(gain) on current asset investments	**4,464**	(2,210)
Net cash (outflow)/inflow from operating activities	**(937,316)**	304,083
Investing Activities		
Interest received	**96,482**	10,903
Purchase of investments	-	(500,000)
Sales of investments	-	7,500
Purchase of plant & equipment	**(20,800)**	(465)
Investment in associate	-	(23,700)
Net cashflow from investing activities	**75,682**	(505,762)
Financing activities		
Proceeds from share issue	**790,008**	29,000
Loan	**417,000**	100,000
Loans repaid	**(59,800)**	-
Interest paid	**(7,507)**	(8,776)
Net cash inflow from financing activities	**1,139,701**	120,224
Increase/(decrease) in cash & cash equivalents	**278,067**	(81,455)
Reconciliation of net cash flow to movement in net debt		
Increase/(decrease) in cash in the period	**278,067**	(81,455)
Cash inflow from issue of loan note	**(417,000)**	-
Loan note repaid	**59,800**	-
Loan notes converted to ordinary shares	**223,000**	-
Movement in year	**143,867**	-
Net (debt) brought forward	**(462,733)**	(381,278)
Net (debt) carried forward	**(318,866)**	(462,733)

CONSOLIDATED CASH FLOW STATEMENT *Continued*

Analysis of changes in net (debt)	At 1 January 2010 £	Cashflows	Other non cash changes	At 31 December 2010 £
Cash at bank and in hand	5,267	304,109	-	309,376
Bank overdraft	-	(26,042)	-	(26,042)
Cash and cash equivalents	5,267	278,067	-	283,334
Debt due within one year				
Secured loan notes	(408,000)	24,800	223,000	(160,200)
Unsecured loan notes	(60,000)	(382,000)	-	(442,000)
	(462,733)	(79,133)	223,000	(318,866)

COMPANY CASH FLOW STATEMENT

for the year ended 31 December 2010

	2010 £	2009 £
Reconciliation of operating loss to net cash (outflow) from operating activities		
Operating profit	**554,282**	(917,779)
(Increase)/decrease in trade & other receivables	**(1,995,002)**	12,767
Increase in trade & other payables	**285,035**	1,420,425
Depreciation	**5,414**	2,082
Impairment of associate	**-**	23,700
Realised (gain) on current asset investments	**-**	(2,500)
Unrealised loss/(gain) on current asset investments	**4,463**	(2,210)
Net cash flow from operating activities	**(1,145,808)**	536,485
Investing Activities		
Interest received	**-**	5
Sales of investments	**-**	7,500
Purchase of plant & equipment	**(20,800)**	(465)
Investment in associate	**-**	(23,700)
Investment in subsidiary	**-**	(526,000)
Net cashflow from investing activities	**(20,800)**	(542,660)
Financing activities		
Proceeds from share issue	**790,008**	29,000
Issue of loan notes	**417,000**	-
Loan notes repaid	**(59,800)**	-
Interest paid	**(7,507)**	(8,776)
Net cash inflow from financing activities	**1,139,701**	20,224
(Decrease)/Increase in cash & cash equivalents	**(26,907)**	14,049

	At 1 January 2010 £	Cashflows	At 31 December 2010 £
Cash at bank and in hand	5,024	(865)	4,159
Bank overdraft	-	(26,042)	(26,042)
Cash held in stockbroker's client accounts	-	-	-
Cash and cash equivalents	5,024	(26,907)	(21,883)

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2010

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

Standards applied

The Group has adopted the following relevant standards which were effective on 1 January 2010

IFRS 2 (amended) Share-based payment
IFRS 8 (amended) Operating segments
IAS 1 (revised and amended) Presentation of financial statements
IAS 7 (amended) Statement of cash flows
IAS 17 (amended) Leases
IAS 36 (amended Impairment of assets
IAS 39 (amended) Financial instruments – recognition and measurement

The Group has adopted the following relevant standards which were effective on 1 July 2009

IFRS 3 (revised) Business combinations
IAS 38 (amended) Intangible assets

The adoption of these standards did not have a material impact on the Group and Company's financial position or performance

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

IFRS 3 (amended) Business Combinations effective date 1 July 2010
IFRS 7 (amended) Disclosures effective date 1 January 2011
IFRS 9 Financial Instruments effective date 1 January 2013
IAS 1 (amended) Presentation of financial statements effective date 1 January 2011
IAS 24 (revised) Related party disclosure effective date 1 January 2011
IAS 27 (amended) Consolidated and separate Financial statements effective date 1st July 2010
IAS 32 (amended) Financial Instruments effective date 1 February 2010
IAS 34 (amended) Interim Financial reporting effective date 1 January 2011

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

Basis of consolidation (continued)
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

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 income 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 recognised at realisable invoice value where fees and commissions have been earned in respect of contracted periods

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

Revenue recognition (continued)

Any client money no longer treated as client money in accordance with the FSA handbook is only treated as income following a prudent assessment based on experience of likely claims to be made good

In respect of the independent financial adviser business acquired during the year, income is recognised when it can be reliably measured and it is probable that future economic benefits will flow to it The point at which income is recognised on all new business is when a commitment from the client is received to proceed with the transaction Fund based commissions are recognised on an accruals basis according to the level of funds under the influence of the Company Income represents the value of the work done in the year and is stated net of appropriate provisions for claw-back and wastage Any surplus arising from the fair value of this acquired income over purchase cost is treated as a direct credit to the Income Statement in accordance with IFRS 3

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

Taxation (continued)

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

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

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

Subordinated loan
The subordinated loan bears interest at 10%, is stated at its nominal value and repayment is subordinated to all other creditors

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

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 and does not make contributions to the personal pension schemes of any Directors A subsidiary company operates a stakeholder pension scheme and makes defined contributions to it

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 Taking account of the forecast for the following year, the directors have concluded that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern

2. Turnover

Segmental analysis for the group is given below

Geographical

	2010	2009
	£	£
Turnover		
United Kingdom & Europe	**2,147,681**	394,359
USA	**3,500**	10,000
	2,151,181	404,359
Profit/(Loss) before tax		
United Kingdom & Europe	**1,687,696**	(892,628)
USA	**2,750**	(22,635)
	1,690,446	(915,263)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. Turnover *(continued)*

Net Assets/(Liabilities)

	2010	2009
	£	£
United Kingdom & Europe	**1,586,444**	(1,534,307)
USA	**-**	-
	1,586,444	(1,534,307)

Due to limited activity in the group noted, the directors consider that this is the only segment which requires disclosure under IFRS 8

3. Operating profit/(loss)

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

	2010	2009
	£	£
Auditors' remuneration - auditing of the financial statements of the company pursuant to legislation	**17,317**	9,758
- auditing of accounts of associates of the company pursuant to legislation	**18,250**	4,750
- other services relating to taxation	**795**	770
- other services	**2,000**	4,513
Operating leases - land and building	**161,604**	74,940
- other	**2,996**	4,230
Office services income received	**(31,048)**	(24,609)
Depreciation	**5,414**	2,082

4. Particulars of employees

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

	2010 No.	2009 No.
Number of administrative staff	**22**	5
Number of professional staff	**2**	3
	24	8

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

	2010 £	2009 £
Wages and salaries	**91,635**	309,387
Social security costs	**8,492**	34,718
Employer's pension costs	**1,015**	-
	101,142	344,105

5. Directors' emoluments

The Directors' aggregate emoluments in respect of qualifying services were

	2010 £	2009 £
Directors' emoluments	**108,748**	65,000
Social security costs	**17,417**	8,320
	126,165	73,320
Emoluments		
James Holmes	**47,555**	30,000
Martin Eberhardt	**56,193**	35,000
Christopher Day	**-**	-
	103,748	65,000

During the year warrants were issued to the Directors as follows

	Number	Date issued	Exercise price	Lapse on
M Eberhardt	45,086,998	1 September 2010	0 05p per share	31 August 2015
J Holmes	90,173,995	1 September 2010	0 05p per share	31 August 2015

6. Taxation

	2010 £	2009 £
Analysis of tax year in charge		
Corporation Tax	-	-
Factors affecting tax charge for the year		
Profit/(loss) on ordinary activities before tax – group	**1,690,446**	(915,263)
Profit/(loss) on ordinary activities multiplied by standard rate of UK corporation tax of 28% (2009 28%)	**473,325**	(256,274)
Effects of		
Expenses not deductible for tax purposes	**10,306**	6,782
Share of associated company profit	**(186,337)**	-
Marginal rate tax relief	**(12,427)**	-
(Decrease)/Increase in UK tax losses	**(204,111)**	249,492
Tax charge	**80,756**	-
Potential UK Tax credits available multiplied by standard rate of UK corporation tax of 28% (2009 28%)	**(1,243,701)**	(1,447,812)

7. Profit attributable to members of the parent Company

The profit before dividends dealt with in the accounts of the parent company was £546,775 (2009 loss £926,550)

8. Profit/(loss) per share

	2010	2009
Profit/(loss) per ordinary share (pence)	**0.38p**	(0 77p)
Diluted profit/(loss) per ordinary share (pence)	**0.07p**	(0 29p)

The profit/(loss) per share has been calculated on the net basis on the group surplus/(deficit) for the financial year, after taxation, of £1,609,690 (2009 £(915,263)) using the weighted average number of ordinary shares in issue of 424,618,438 (2009 118,555,080)

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 1,777,797,247 shares in existence at the year end (2009 200,066,667)

9. Non Current Asset Investments (Unlisted)

	Group 2010 £	Company 2010 £	Group 2009 £	Company 2009 £
Subsidiary Undertakings				
Cost				
At 1 January	-	641,001	-	115,001
Additions	-	-	-	526,000
At 31 December	-	641,001	-	641,001
Net Book Value				
At 31 December	-	641,001	-	641,001

Associate Undertakings	Group 2010	Company 2010	Group 2009	Company 2009
Cost				
At 1 January	-	-	-	-
Additions	-	-	23,700	-
Impairment	-	-	(23,700)	-
Share of profit in associate undertaking	665,490	-	-	-
At 31 December	665,490	-	-	-
Net Book Value				
At 31 December	665,490	-	-	-

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, a 29% holding in Merchant Corporate Recovery Plc, a company incorporated in the UK on 30 January 2009, which was acquired during 2009 for a nil consideration and whose principal business is that of providing turnaround finance and a 29 9% holding in Merchant Turnaround Plc, a company incorporated in the UK on 5 January 2010, which was acquired during 2010 for a nil consideration and whose principal business is that of providing turnaround finance

At 31 December 2009, following an impairment review, the directors considered that an impairment adjustment of £23,700 (Company £23,700) should be recognised in relation to the investment in Merchant House Finance Limited

9. 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%	FSA Regulated Business
Merchant House Securities Ltd	UK	Ordinary Shares	100%	Security Trustee
Aldermary Secretaries Ltd	UK	Ordinary Shares	100%	Not Trading
Merchant House Financial Services Ltd	UK	Ordinary Shares	100%	FSA Regulated Business (as an appointed representative)

The Company has a 50% controlling partnership interest in Merchant Trading LLP, which is a subsidiary Merchant Trading LLP does not trade, acting as a distributor of income payable to group companies Distributions in the year have already been included in the income of the Group companies

The results and net assets of the subsidiaries for the year ended 31 December 2010 are as follows

	Profit in year	Net assets at 31 December 2010
Merchant Capital Limited	£380,724	£1,041,368
Merchant House Securities Limited	-	£1
Aldermary Secretaries Limited	-	£1
Merchant House Financial Services Ltd	£77,965	£77,965

On 17 December 2010 a subsidiary company Merchant House Financial Services Limited acquired certain assets of The Clarkson Hill Group Plc (in Administration) for consideration of £600,000 payable in subsequent years, as a consequence of which a surplus of fair value over the purchase cost arose in the amount of £1,915,026 and a profit in the year of £77,695

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

NOTES TO THE FINANCIAL STATEMENTS *Continued*

10. Non current assets - Property, plant and equipment

Company and Group	Office Equipment £	Fixtures and Fittings £	Total £
Cost			
At 1 January 2010	29,595	11,972	41,567
Additions	18,897	1,903	20,800
At 31 December 2010	48,492	13,875	62,367
Depreciation			
At 1 January 2010	27,751	11,972	39,723
Charge for the year	4,938	476	5,414
At 31 December 2010	32,689	12,448	45,137
Net book value			
At 31 December 2010	15,803	1,427	17,230

Company and Group	Office Equipment £	Fixtures and Fittings £	Total £
Cost			
At 1 January 2009	29,130	11,972	41,102
Additions	465	-	465
At 31 December 2009	29,595	11,972	41,567
Depreciation			
At 1 January 2009	25,669	11,972	37,641
Charge for the year	2,082	-	2,082
At 31 December 2009	27,751	11,972	39,723
Net book value			
At 31 December 2009	1,844	-	1,844

11. Current assets - trade and other receivables

	Group 2010 £	Company 2010 £	Group 2009 £	Company 2009 £
Trade receivables	**2,747,757**	**37,097**	8,057	1,181
Other receivables	**73,980**	**14,335**	65,659	12,659
Prepayments and accrued income	**261,190**	**68,763**	198,617	11,549
Receivables from related parties	**351,156**	**1,900,196**	39,111	-
	3,434,083	**2,020,391**	311,444	25,389

12. Current Assets - Cash and Cash Equivalents

	Group 2010 £	Company 2010 £	Group 2009 £	Company 2009 £
Cash held at bank and in hand	**309,376**	**4,160**	5,267	5,024
	309,376	**4,160**	5,267	5,024

13. Current assets - Investments

Quoted investments held as current assets are as follows

	Group 2010 £	Company 2010 £	Group 2009 £	Company 2009 £
Investments at fair value	**502,847**	**2,847**	507,310	7,310

The fair value of these investments is based on quoted market price, when quoted, or cost

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

	Group 2010 £	Company 2010 £	Group 2009 £	Company 2009 £
Trade payables	**603,677**	**565,462**	619,210	604,654
Other payables	**972,750**	**612,937**	776,233	761,559
Accruals	**759,827**	**53,372**	203,504	194,241
Taxation and social security	**437,474**	**325,814**	152,385	144,730
Payables to related parties	**133,655**	**288,959**	59,522	80,017
Bank overdraft	**26,042**	**26,042**	-	-
	2,933,425	**1,872,586**	1,810,854	1,785,201
Convertible loan notes (note 15)	**185,200**	**185,200**	449,318	449,318
	3,118,625	**2,057,786**	2,260,172	2,234,519

Included in other payables are loans amounting to £209,616, of which £30,000 was a short term loan bearing no interest which was repaid after the year end A loan of £179,616 was made to the Company in December 2010 The loan bears interest at 12% per annum, is repayable within one year and was secured by a debenture over the undertaking and assets of the Company registered in February 2011 and satisfied in April 2011 An advance on commissions of £270,000 was made to the Company in December 2010 in connection with the business assets acquired in that month by a subsidiary company, which sum is deductible from commission payments due to the subsidiary by agreement of the parties or repayable on demand

15. Convertible Loan notes - Group and Company

	Unsecured Convertible Loan Notes £	Secured Convertible Loan Notes £	Total Convertible Loan Notes £
Balance at 1 January 2010	**60,000**	**408,000**	**468,000**
Loans repaid or converted	**(35,000)**	**(247,800)**	**(282,800)**
Balance at 31 December 2010	**25,000**	**160,200**	**185,200**

Total convertible loan notes amounting to £185,200 (2009 £468,000) are analysed as

	2010 £	2009 £
Liability component	**185,200**	449,318
Equity component	**-**	18,682
	185,200	468,000

15. Convertible Loan notes - Group and Company (Continued)

The Secured 2010 loan is secured by a first debenture over all the assets and undertakings of the Company Full details of the Unsecured and Secured loans 2010 were set out in the circular to shareholders dated 1 August 2005

16. Non current liabilities – Group and Company

	Group 2010 £	Company 2010 £	Group 2009 £	Company 2009 £
Convertible loan notes	**417,000**	**417,000**	-	-

Total convertible loan notes amounting to £417,000 (2009 £Nil) are analysed as

	2010 £	2009 £
Liability component	**123,957**	-
Equity component	**293,043**	-
	417,000	-

The convertible loan was made on 31 August 2010, is repayable after five years and one day and the principal amount bears no interest and it is unsecured Full details of the Unsecured loan 2015 were set out in the circular to shareholders dated 3 August 2010

	Group 2010 £	Company 2010 £	Group 2009 £	Company 2009 £
Subordinated Loan	**100,000**	-	100,000	-

The subordinated loan was made on 24 July 2009, is repayable after five years and one day and the principal amount bears interest at 10% per annum and it is unsecured

17. Share capital – Group and Company

	2010 £	2009 £
Authorised share capital:		
2,362,247,600 Ordinary shares of 0 01p each	**11,811,238**	11,811,238
4,000,000 Preference shares of £1 each	**4,000,000**	4,000,000
	15,811,238	15,811,238

17. Share capital – Group and Company (continued)

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

	2010		2009	
	No.	£	No.	£
Allotted, called up and fully paid				
Ordinary shares of 0 01p	**847,792,203**	**84,779**	137,870,148	13,787
Ordinary shares of 0 01p to be issued	**578,560,764**	**57,857**	-	-
Deferred shares of 0 49p/- each	**107,870,148**	**528,563**	107,870,148	528,563
		671,199		542,350

On 18 February 2010 the Company issued 15,000,000 Ordinary 0 01p shares at a price of 0 15p per share

On 18 February 2010 the Company issued 24,556,507 Ordinary 0 01p shares at a price of 0 2p per share

On 24 March 2010 the Company issued 50,000,000 Ordinary 0 01p shares at a price of 0 5p per share

On 13 May 2010 the Company issued 13,700,000 Ordinary 0 01p shares at a price of 0 45p per share

On 27 May 2010 the Company issued 22,700,000 Ordinary 0 01p shares at a price of 0 3p per share

On 16 July 2010 the Company issued 71,428,571 Ordinary 0 01p shares at a price of 0 14p per share

On 23 August 2010 the Company issued 16,666,067 Ordinary 0 01p shares at a price of 0 165p per share

On 31 August 2010 the Company issued 272,615,706 Ordinary 0 01p shares at a price of 0 05p per share

On 31 August 2010 the Company issued 4,000,000 Ordinary 0 01p shares at a price of 0 125p per share

On 31 August 2010 the Company issued 70,384,238 Ordinary 0 01p shares at a price of 0 01p per share

On 31 August 2010 the Company issued 108,870,966 Ordinary 0 01p shares at a price of 0 155p per share

On 7 September 2010 the Company issued 40,000,000 Ordinary 0 01p shares at a price of 0 05p per share

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
667,130,580	0 05p	31 August 2010	31 August 2015

18. Ultimate controlling party

The Company has not been notified of any immediate controlling party

19. Related party transactions

During the year ended 31 December 2010, M Eberhardt was also a director of Merchant Capital Ltd and Hollywood Media Services Plc During the year the Company incurred fees totalling £16,508 in respect of consultancy services provided by Eberhardt Consulting Services and issued to M Eberhardt 55,645,161 Ordinary 0 01p shares at a price of 0 155p in respect of arrears of salary

During the year ended 31 December 2010, J Holmes was also a director of Merchant Capital Ltd, Merchant House Finance Ltd, Hollywood Media Services Plc, Deo Petroleum Plc, Merchant Corporate Recovery Plc, and Merchant Turnaround Plc During the year the Company reimbursed £5,000 travel and entertainment costs incurred by J Holmes, and issued to him 53,225,805 Ordinary 0 01p shares at a price of 0 155p in respect of arrears of salary

During the year ended 31 December 2010, C Day was also a director of Merchant Capital Ltd, Merchant House Financial Services Ltd, Jordasic Investment Holdings Limited, Independent Portfolio Managers Ltd and a member of Merchant Trading LLP During the year the Company issued 62,615,706 ordinary 0 01p shares at a price of 0 05p per share to Jordasic Investment Holdings Limited in respect of conversion of loan

At the year end current asset investments held by the company at market value was

	2010 £	2009 £
Deo Petroleum Plc	2,847	7,310

During the year transactions took place as follows

	Sales (Gross) 2010 £	Sales included in debtors at year end 2010 £	Sales (Gross) 2009 £	Sales included in debtors at year end 2009 £
Catering for Events plc	-	387	-	387
Independent Portfolio Managers Ltd	12,000	12,000	-	-
Hollywood Media Services Plc	-	-	30,510	23,142
Merchant House Finance Ltd	24,016	24,016	23,700	-

Merchant House Finance Ltd is an associate company

Merchant Corporate Recovery Plc is an associate company, in which the Company acquired a 29% shareholding for nil consideration during 2009, and the principal activity of which is providing turnaround finance At the year end the Company owed Merchant Corporate Recovery Plc £132,330 (2009 £59,522) During the year ended 31 December 2010, Merchant House Group Plc recovered expenses totalling £29,353 (2009 £94,816) in respect of transactions with Merchant Corporate Recovery Plc

19. Related party transactions (continued)

Merchant Turnaround Plc is an associate company, in which the Company acquired a 29% shareholding for nil consideration during 2010, and the principal activity of which is providing turnaround finance At the year end the Company owed Merchant Turnaround Plc £1,325 (2009 £nil) During the year ended 31 December 2010, Merchant House Group Plc recovered expenses totalling £144,489 (2009 £nil) in respect of transactions with Merchant Turnaround Plc

During the year ended 31 December 2010, Merchant House Group Plc received £986,000 (2009 £295,000) in management fees from Merchant Capital Limited, a wholly owned subsidiary At the period end the balance it owed to Merchant Capital Ltd was £155,304 (2009 £20,495)

During the year ended 31 December 2010, Merchant House Group Plc received £1,545,600 including VAT (2009 £Nil) in management fees from Merchant House Financial Services Ltd, a wholly owned subsidiary Merchant House Group Plc also incurred expenses totalling £354,596 on behalf of Merchant House Financial Services Ltd At the period end the balance it was owed by Merchant House Financial Services Ltd was £1,900,196 (2009 £Nil)

Merchant House Group Plc is a partner in Merchant Trading LLP and during 2010 Merchant Trading LLP made partnership distributions to Merchant House Group Plc totalling £276,655 (2009 £nil) Merchant House Group also incurred expenses totalling £72,766 (2009 £nil) on behalf of Merchant Trading LLP and Merchant Trading LLP loaned Merchant House Group Plc £209,617 (2009 £nil) during the year At the period end the balance Merchant House Group Plc owed to Merchant Trading LLP was £163,080 (2009 £nil)

On 30 March 2009, Merchant Capital Limited issued 2,000,000 0 5p ordinary shares fully paid, on 1 May 2009 it issued 3,200,000 0 5p ordinary shares fully paid and on 30 November 2009 it issued 100,000,000 0 5p ordinary shares fully paid to the parent company, Merchant House Group Plc

At the end of the year the amount due to Catering for Events Plc was £5,015 (2009 £5,015)

20. 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 investments and trade payables 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

20. Financial instruments (continued)

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

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 -

	2010	2009
Sterling cash deposit	£-	£-

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 2010

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

	2010 £	2009 £
Trade and other receivables	**3,434,083**	311,444
Investments held as current assets	**502,847**	507,310
Cash and cash equivalents	**309,376**	5,267
Total	**4,246,306**	824,021

Short-term deposits are held at Lloyds TSB Plc and Custodian client money bank accounts The weighted average rate of interest earned on these deposits was 0 5% (2009 0 5%) No funds are held on fixed rate terms

20. Fmancial mstruments (contmued)

The Group held the following financial habihties at the year end

	2010	2009
	£	**£**
Trade and other payables – current	**3,118,625**	2,260,172
Other payables - non current	**223,957**	100,000
	3,342,582	2,360,172

21. Operating lease commitments – Group and Company

The total rentals of committed operatıng leases at 31 December 2010 are as follows

Company and Group	2010 Land and Buildings	2010 Other	2009 Land and Buildings	2009 Other
Not later than one year	**75,075**	**3,877**	-	£1,058
Later than one year but not later than five years	**206,456**	**7,431**	-	-

22. Subsequent events

On 12 January 2011 the Companv ıssued 397,384,294 new ordinary shares of 0 01p each ın the capital of the Company at a price of 0 05p per share, pursuant to the proposals approved by shareholders at the Company's general meeting held on 31 August 2010

On 9 February 2011 the Company ıssued 50,000,000 new ordinary shares of 0 01p each ın the capital of the Company at a price of 0 05p per share, pursuant to these proposals

On 11 February 2011 the Company ıssued 8,823,529 new ordinary shares of 0 01p each ın the capital of the Company at an effective price of 0 145p per share, pursuant to these proposals

On 11 March 2011 the Company ıssued ın aggregate 490,518,717 new ordinary shares of 0 01p each ın the capital of the Company, of the total 283,000,000,000 were ıssued at a price of 0 05p per share ın respect of the conversion of loan and 207,518,717 were issued at a price of 0 16625p per share ın respect of a placing

On 7 June 2011 the Company ıssued a Convertible Loan Note to Barnard Nominees Ltd ın the principal amount of £295,000 which carries interest at 6 5% per annum and which ıs repayable ın full on or before 7 June 2016, unless converted into the Company's ordinary shares at the conversion rate of 922 Ordinary shares at a price of 0 1085p per share for each £1 of principal loan

Merchant House Financial Services Ltd has advanced to FSA Approved Persons (Independent Financial Advisers) a total of £965,666 ın the year commencing 1st January 2011 under the terms of agreements entered into with them following its acquisition of certain assets from the Administrators of The Clarkson Hill Group (ın Administration) on 17th December 2010

23. Associate Undertakings

Merchant House Finance Limited

In November 2005 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

At 31 December 2009, the directors of Merchant House Group Plc carried out an impairment review and wrote down its investment in Merchant House Finance Limited to £Nil The company had a history of losses and there was no indication or evidence that the company would incur a profit in the future During 2010, Merchant House Finance Limited incurred further losses and no further write down was considered necessary in this respect, as the investment was already fully impaired

Merchant Corporate Recovery Plc

In January 2009 the Company acquired 29% of the issued 0 1p ordinary share capital of Merchant Corporate Recovery Plc, a company incorporated in the UK and whose principal business is that of providing turnaround finance, for £nil consideration

The Company's share of the results, assets and liabilities of Merchant Corporate Recovery Plc at 31 January 2010, adjusted for the fair value of investments at 31 December 2010 was as follows

	2010
	£
Audited profit before tax at 31 January 2010	239,190
Share of profit before tax following increased value of investments	426,300
Taxation	-
Profit after tax	665,490
Non current assets	1,005,575
Current assets	439,550
Current liabilities	(41,966)
Long term liabilities	(565,118)
	838,041

The share of the profit or loss for the associated company Merchant Corporate Recovery Plc for the period ended 31 December 2010 is not fully disclosed because we were only able to obtain information on the adjustment for the fair value of investments at 31 December 2010 for the purpose of our audit The financial year end of Merchant Corporate Recovery Plc is 31 January 2011 and there are therefore no financial statements available for the period ended 31 December 2010, nor have the financial statements for the year ended 31 January 2011 yet been prepared We were unable to obtain sufficient appropriate audit evidence as to the existence of the Associate's accounting records by using other audit procedures

Merchant Turnaround plc

In January 2010 the Company acquired 29 9% of the issued 0 1p ordinary share capital of Merchant Turnaround Plc, a company incorporated in the UK and whose principal business is that of providing turnaround finance, for £nil consideration

23. Associate Undertakings (continued)

The Company's share of the results, assets and habilities of Merchant Turnaround Plc at 31 December 2010 is not disclosed The financial year end of Merchant Corporate Recovery Plc is 31 January 2011 and there are therefore no financial statements available for the period ended 31 December 2010, nor have financial statements for the period ended 31 January 2011 yet been prepared We were unable to obtain sufficient appropriate audit evidence as to the existence of the Associate's accounting records by using other audit procedures

The Company ascribes no value to its investment in Merchant Turnaround Plc's issued ordinary share capital at 31 December 2010

24. Share based payments

During the year the company issued in aggregate 407,966,851 Ordinary 0 01p shares as conversion of loans made to the company Of this total 262,615,706 were issued at a price of 0 05p per share, 24,556,507 at a price of 0 2p per share, 71,428,571 at a price of 0 14 p per share, 16,666,067 at a price of 0 165 p per share, 4,000,000 at a price of 0 125p per share and 15,000,000 at a price of 0 15 p per share and 13,700,000 at a price of 0 45 p per share The total value of the shares issued was £25,000 in excess of the value of the loans outstanding

During the year the company issued 50,0000,000 Ordinary 0 01p shares at a price of 0 15p per share in settlement of debt During the year the company issued 108,870,966 Ordinary 0 01p shares at a price of 0 155p per share in settlement of arrear of directors' salary

25. Contingent Liability

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

26 Authorisation of financial statements

The board of directors has authorised the issue of these financial statements as set out in the consolidated statement of financial position

27 Management of Capital Requirements

The Group is subject to Financial Services Authority consolidated capital requirements and the directors of the Company monitor the performance of the Group on a regular basis and manage the use of Group capital resources in accordance with those requirements

28. Secured obligation

Allied Dunbar Assurance Plc has security in respect of a liability of a subsidiary company for £500,000 included in trade and other payables in the form of a free and floating charge over the undertaking and all property and assets of the subsidiary company The Company has issued a guarantee to the subsidiary company in respect of this obligation