



The small company specialists

COMPANY INFORMATION

Merchant House Group (LSE – MHG)

October 2006

Company Eye Ranking

27/50

EDITOR'S NOTE

Merchant Capital is a corporate finance and investment advisory firm with a focus on small to medium sized companies. The Company strategy is to provide corporate advice on a continuing basis for clients while at the same time taking a stake in their future. In this connection the Group has secured warrants or investments in a number of the companies with which it is involved.

In addition, the Company is now able to provide significant assistance in relation to small cap fundraisings, and has assisted in a number of such fundraisings in recent

months.

We believe that the experience which the corporate team brings to bear enables the Company to offer detailed and specialist corporate advice on a basis tailored to the needs of corporate clients both on and after flotation and at the pre-IPO stage.

The business has a relatively modest valuation. The upside is based on liquidating its holdings in its 'shells'. With the new rules introduced relating to cash shells this could be considered a risky prospect.

3 YEARS CHART



FUNDAMENTALS

Company Name	Merchant House Group
Current Price	5.62
Status	AIM
Market Cap	1.99 m.
Shares in Issue	35,346,600 m.
Activities	Provision of financial services
Sector	Investment Services
Corporate advisor	Shore Capital & Corporate Ltd
Registrar	Capita Registrars

HISTORY

Originally established in July 2000, as a cash shell named Airow and became a financial services group. The nucleus of the team has been built and the plan is to build an advisory services 'one-

stop-shop' for smaller, growing corporate clients as well as providing private banking services for high net worth individuals. FSA approval has been received to carry out corporate finance and investment advisory work.

THE BUSINESS

The Company provides integrated financial advice tailored to its clients' financial and strategic requirements. The Company services include AIM and Ofex flotations, reverse takeovers and private equity fundraisings. In addition The Company provide advice on debt and asset-based financing, mergers and acquisitions, disposals and

corporate restructuring.

The team brings substantial expertise in advising and raising capital for growth companies. The firm's approach is to build and develop long-term relationships and provide advice and access to capital to support companies in growing their businesses successfully.

SERVICES

The Company specialising in small to medium-sized quoted and unquoted companies, their expertise is in providing corporate finance advice encompassing:

Mergers & Acquisitions

The Company advise clients on strategic transactions and

associated funding requirements.

* Strategic acquisitions and mergers

* Trade Sales

* Restructuring

* Strategic reviews



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Quoted Cash Shells

For clients looking to raise capital and achieve a quote: For certain clients, reversing into a Cash Shell representing an attractive alternative to an IPO or private equity fundraising. A Cash Shell allowing a transaction to be structured according to the particular requirements of a company or project in a more flexible way. A reversal is suited to situations where certainty of funding and timing is a key factor.

For failed or failing quoted companies:

Shareholder interests in failed or failing quoted companies can sometimes be best served by re-organising and

restructuring the entity to produce a Cash Shell with a strategy to create value for shareholders by identifying an attractive operating business for a reverse takeover.

Merchant Capital advises clients on the restructuring process which may include disposing of any residual businesses or assets, putting the company through a Company Voluntary Arrangement ("CVA"), new board appointments and an injection of new capital. The aim is to realize value for shareholders through the restructuring and provide them with a residual interest in a clean vehicle positioned for a reverse takeover.

LIST OF CLIENTS

Jul 04 **Victoria Oil & Gas**

Oil and gas company focused on exploration and production assets in the Former Soviet Union. Actively building its stock of recoverable oil and gas reserves.

Feb 05 **TV Commerce**

TV Commerce is an interactive media and entertainment company specialising in TV, telephony entertainment content and broadcasting services.

Jul 05 **Byotrol**

Byotrol has developed a new microbial technology which eradicates, and provides continuing protection against most groups of micro-organisms, including MRSA and VRE. The technology provides a platform for a range of products, initially focussed on the healthcare, food processing and industrial sectors.

Aug 05 **Bella Media**

Bella aims to build and operate giant-screen (IMAX) cinemas in established world heritage sites and retail destinations. The Company

also plans to produce and distribute large format films.

Sep 05 **Cellcast**

Cellcast provides participation television and mobile phone applications to the multi-platform digital entertainment sector. Cellcast's own programming is distributed on the Sky Digital platform in the UK and by broadcast partners in Europe, the Middle and Far East and South America. A further £1.8m of existing shares were sold through a vendor placing as part of the AIM transaction.

Nov 05 **Weatherly International**

Repositioned from a cash shell, Weatherly has copper mining interests in Zambia, and aims to acquire further natural resource assets in Africa.

Nov 05 **Future Internet Technologies**

After being reconstituted and refinanced as a cash shell, the Company raised additional funds during 2005 and in March 2006, acquired stakes in two telecommunications companies, with a strategy to build an integrated fixed-mobile communications business.

DEVELOPMENT STRATEGY

The MHG's vision is to develop as a 'one-stop services' for smaller companies and provide a full range of corporate finance and advise for companies and a wealth asset management service for wealthier investors. Corporate services advice will include corporate finance, access to financing equity and loans. The group will also be able to provide financial services and investment products to corporations and their employees. Corporate clients will also have access to a range of corporate development services such as Financial PR, Corporate Communications, and the recruitment of non-executives and advisors, as well as providing management and

marketing consultancy services.

Wealth Management Services will include a full range of investment products and advice ranging from equities and asset management to specialist investment products and derivatives, pensions, and tax advice, mortgage and insurance services to provide a fully integrated advisory service. Other activities that would be complementary are fund management; private equity and creating and managing specialist funds such as property and venture funds. Where acquisitions and teams cannot be attracted then MHG will look to outsource services.

GROWTH POTENTIAL AND RETURNS

The Directors believe that the experience which the corporate team brings to bear enables the Company to offer detailed and specialist corporate advice on a basis tailored to the needs of corporate clients both on and after flotation and at the pre-IPO stage. In addition, the Company is now able to provide significant assistance in relation to small cap fundraisings, and has assisted in a number of such fundraisings in recent months. With a number of mandates continuing into the second half, the Directors have confidence that the improved level of

activity will be at least maintained. The Board is mindful of the need further to improve the Group's operating performance and, to that end, is taking steps to strengthen the team and to broaden the range of services offered to corporate clients.

With the additional resources available to it and the increased level of activity already achieved, the Directors are confident that the Company is well-positioned to continue to build its business and increase shareholder value.



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TARGET MARKET

Fundraisings

The Company has an integrated and pragmatic approach to fundraisings and seek to provide clients with the most effective and appropriate financing solution, based on their strategic objectives.

* The Company developing a phased fundraising strategy

for clients with a view to maximising shareholder value.

- * Introductions
- * Secondary equity offerings
- * Reversing into a cash shell
- * Private equity
- Debt and asset-based financing

DIRECTORS

Peter Redmond - Chairman

Peter has over 20 years' experience in corporate finance and venture capital, most recently with Durlacher Limited and has been a director of both Merchant Capital and it's parent Merchant House Group since April 2003.

He is an experienced corporate financier with broad experience in IPOs, reverse takeovers, mergers and acquisitions and corporate reconstructions. Originally an investment analyst with Hoare Govett, he has subsequently managed or advised a wide range of public and private companies.

He is a director of a number of companies including Weatherly International Plc, Bella Media Plc, Fortfield Investments Plc, BWA Group Plc and Synigence Plc all of which are traded on AIM.

Peter Cotgrove - Executive Chairman.

Has worked in the city all his working life principally in investment management. He has been Vice President of Paine Webber and a director of AIB Govett Investment Management as well as a number of companies within SG Warburg.

Martin Eberhardt - non-executive director and Chairman ACA, qualified as a chartered accountant with Touche Ross in 1985. From 1997 to 2004, he was finance director and latterly CEO of Roxspur PLC, a manufacturing, systems and distribution group based in the UK. Following a downturn in Roxspur's principal market, he successfully concluded the reverse acquisition of a telecommunications group. He is currently Chief Executive Officer of Catering 4 Events plc, a privately owned catering business.

SHAREHOLDINGS

	Number	%		Number	%
Allied Financial Limited	1,532,383	7.61	Pete Townsend	750,000	4.27
Westcombe Investments	1,800,000	5.37	Peter Redmond	16000	0.047

FINANCIAL HISTORY

Profit and loss account for the year ending 31 Dec 2005

£'000	Six month period ended 30 June 2006	Dec 2005
Turnover	134,353	656,864
Cost of sales	(79,336)	(368,757)
Gross Profit	55,017	288,107
Administrative costs	(422,696)	(631,425)
Exceptional costs	-	(56,951)
Other operating income	21,793	18,682
Realised gains on current asset investments	217,800	-
Unrealised loss on current asset investments	29,887	(10,827)
Group Operating Loss	(157,973)	(392,414)
Interest payable	(18,213)	(10, 279)
Interest receivable	11,813	16,916
Loss on Ordinary Activities Before Taxation	(164,373)	(384,777)
Tax on loss on ordinary activities	-	-
Loss on Ordinary Activities After Taxation	(164,373)	(384,777)
Loss per share	0.50p	(1.99p)
Diluted loss per share	-	(0.64p)

Balance Sheet for the year ending 31 Dec 2005

£'000	As at 30 June 2006 (Unaudited)	Dec 2005
Tangible Fixed Assets	19,513	15,565
Debtors falling: due after one year	50,000	50,000
Debtors	339,035	149,959
Cash at bank & in hand	301,255	576,063
Investments	133,720	186,608
CURRENT ASSETS	774,010	912,630
Creditors: Amounts falling due within one year	(124,692)	(94,991)
NET CURRENT ASSETS	649,318	817,639
Total assets less current liabilities	718,831	883,204
Creditors: Amounts falling due after more than one year	(606,000)	(656,000)
Total assets less total liabilities	112,831	227,204
CAPITAL AND RESERVES		
Called-up equity share capital	167,733	155,233
Share premium account	201,000	163,500
Special Reserve	52,742	102,742
Profit & loss account	(308,644)	(194,271)
Equity Shareholders' Funds	112,831	227,204



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RISK FACTORS

In addition to the other relevant information, the following specific factors should be considered carefully when evaluating whether to make an investment in the Company. The investment offered in this document may not be suitable for all of its recipients. Before making an investment decision, prospective Investors should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. A prospective Investor should consider carefully whether an investment in the Company is suitable for him/her in the light of his/her personal circumstances and the financial resources available to him/her. There are various risk and other factors associated with an investment of the type described in this document. In particular:

The value of an investment in the Company is largely dependent upon the expertise of the Directors and their ability to identify and acquire or invest in suitable companies or businesses. There can be no certainty that the Company will be able to identify suitable acquisition targets or complete the purchase of any identified targets at a price the Directors consider acceptable. In the event of an aborted acquisition it is likely that resources may have been expended on investigative work and due diligence, which cannot be recovered.

The acquisition of other businesses can involve significant commercial and financial risks and there can be no certainty that any acquired business will not have a material adverse effect on the operations, results or financial position of the Company.

OPORTUNITY

The improvement in the stock market particularly for the lower capitalised companies provides an opportunity for MHG to create a wide financial services group focused on growing companies and high net worth individuals.

It is a 'Buy and Build Strategy to develop a range of complimentary services, which will provide opportunities to cross sell the range of services to the client base. The acquisitions strategy is likely to be complimented by hiring key staff and teams

CONTACT

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RANKING

Ranking out of 50 (50 being highest)

Business model - competitive advantage

Competition	28
Customers	26
Low cost	25
Management	
- corporate governance	
- quality	25
- shareholding	
Product	30
Sector	25

Financial evaluation

Early and profitable exit potential	30
Financial strength	
- cash flow	
- conservative accounting	
- need for funding	27
Growth at a reasonable price	24
Risk	30

Overall average rating

27



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FURTHER INFORMATION ABOUT THE RANKING

Competitive advantage

Companies are assessed according to their business model and how this translates into strong and sustainable competitive advantage. This can only be achieved with low cost activities and doing something different from the competition. This 'differentiation' must add value to the customer who is then prepared to pay a premium price. The differentiation is most obvious in the product but it can exist anywhere in the company's value chain of activities, such as

easy payment terms, convenient locations, superior management, and quality of suppliers. Companies that do not achieve competitive advantage because they have the same costs and/or do the same as the competition are marooned in a profitless zone. They helplessly try to compete with the one weapon left open to them, which is the disaster of cutting prices and typically leads to similar retaliation by competitors, with disastrous results.

THE FOLLOWING ELABORATES ON THE RANKING CRITERIA

Competition

How intense is the competition and are there barriers to entry?

Customers

Is the company controlling its customers and therefore its revenue streams? Are customers glued to the company and providing valuable and reliable recurring revenue or are they one-off, or 'transactional', providing shaky revenue? The company should ideally have weak and numerous customers.

Low costs

Has the company achieved low cost activities thus allowing more of the top line revenue to trickle down to the profit line?

Management

Is there good corporate governance? What is the quality of management, as this is crucial to any business? Are the directors' shareholdings significant but not so large that they control the company?

Product

Is the product different from the competition and adds value to the customer? Are there threatening substitutes? Does it have a powerful brand?

Sector

Is the company in an attractive sector that is profitable and adds value?

Services tend to be more protected than products from international competition. Does the sector ride the tailwind of multi-year mega trends? Is the business well positioned in the current stage of the economic cycle? What is its resistance to a recession?

Profitable exit potential

What is the potential for selling the share profitably? This is more applicable to pre-flotation investments.

Financial strength

Does the company have strong cash flow, the lifeblood of any business? Is the accounting conservative or is there 'accounting for growth'? Does it need more funding? Is the profit margin healthy and at least equal to its sector? What has been the track record in the growth rate of profits?

Growth at a reasonable price

Does the share offer growth at a reasonable price? This is commonly measured using the PEG. This is the price earnings ratio (PE) divided by the forecast growth rate in earnings per share (EPS). The lower the PEG the better and under 1.0 is considered good for a blue chip company and under 0.6 for a small growth company.

Risk

What is the risk rating of the share due to factors such as new markets, its business model and strategies?

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