



The small company specialists



COMPANY INFORMATION

Merchant Group International Plc (PLUS – MGIO)

Date prepared July 2007

The enclosed Company Eye report has been compiled after an independent review of Merchant Group International plc by Constantine Fedorenko, the Market Analyst and CEO of Unquoted Ltd. Company Eye is the trading name of Unquoted Limited. Company Eye analyse and assess small cap companies, including those quoted on AIM and PLUS.

EDITOR'S NOTE

The Merchant Group International plc a UK based company that prides itself on offering tea made with loose leaves rather than teabags, as well as top quality coffee and cakes. Its range includes 16 varieties of coffee and 40 varieties of tea, which is expected to continue to grow over next few years. The Group has developed a business model based on franchising and now has sufficient capital which, the directors believe, together with internally generated cash flows, should provide the resources needed to meet all present planned store and new

market expansion.

The Directors believe that the Company is well positioned to deliver on its business plan of building an international franchised operation for premium quality coffee and tea outlets. The Group aims to provide both income and capital returns for shareholders by building a diversified portfolio of franchises. We believe the Company has a particularly promising future and is already well on track with its international expansion plans.

KEY POINTS

* The Company has signed Heads of Agreement for the sale of its Australian 100% owned subsidiary together with the Australian licence for approximately GBP 1.2 million.

* The Merchant has signed Heads of Agreement for the acquisition of a German based coffee chain with a coffee roasting plant and distribution facility

* Acquisition is currently under consideration for a UK based coffee chain together with a food manufacturing and distribution operation.

FUNDAMENTALS

Company Name	Merchant Group International plc
Offer Price	4.5
Status	Plus
Market Cap	£12.7 m.
52-Week Range	2.63 p. – 7.5 p.
Shares in Issue	421,304,308
Activities	Franchise operation selling quality tea and coffee with complementing sweet and savoury food products
Sector	Leisure & Hotels
Corporate advisor	Atlantic Law LLP
Registrar	SLC Registrars Ltd

HISTORY

The Merchant Tea and Coffee was established in Perth Western Australia in 1990. The company became an iconic cafe for tea and coffee connoisseurs in the city. In 2001 the Directors developed a business model based on franchising and over the past three years

they have been successful in using this strategy to expand The Merchant.

The Merchant Tea and Coffee Company is a wholly owned subsidiary of The Merchant Group International PLC.

THE BUSINESS

The Merchant Group International has 8 stores in Australia of which five are franchised and three company owned under a master franchisee licence. Having historically owned its café outlets, The Merchant is currently migrating its business model to an international franchise based business. Head office relocated to the UK.

The Company is targeting Europe for its international expansion and leases have now been agreed for its first

two UK outlets in St. Albans and Leeds. The Merchant, through its wholly owned subsidiary Merchant One Ltd, has signed Heads of Agreement for the acquisition of a German-based coffee shop chain which operates seven owned and two franchised coffee shops.

The Company aims to have over 60 franchised stores by December 2008 - 15 of these in Australia and at least 20 in Europe. Also the Company is looking to establish itself in China.



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COMPETITION

Starbucks

Starbucks - is one of the best-known coffee shop brands in the world. It operates through more than 7,500 retail locations in North America, Latin America, Europe, and the Middle East.

Lao She Teahouse - famous teahouse in China.

Blenz Coffee – has over 50 outlets in China.

Coffee Republic

Coffee Republic - is a coffee shop operator in the UK with about 45 espresso bars. The company has shuttered several locations and is converting the

remainder of its chain into US-style deli outlets.

Caffè Nero

Caffè Nero - is currently the largest independent coffee retailer in the UK, with over 300 Caffè Nero stores from.

The Directors of The Merchant Group Plc believe that The Merchant Group franchising model has many advantages over the other franchises currently available.

OPERATIONAL MODEL

The retail outlet model is founded on a no-kitchen philosophy. Modern day food preparation, storage and distribution technology has enabled The Merchant to source foods that require little or no preparation within the retail outlets but are still highly desired by the customer.

The Merchant has a clear goal of maintaining a retail outlet operation that is founded on simple product

preparation and service by not placing overly onerous and costly operations and procedures in the outlets. This enables a consistently high level of customer satisfaction.

Merchant Group business model is proven and the directors believe that it can be adapted to many locations.

TARGET MARKETS / SITES

The Directors of The Merchant Group understand that no two sites are the same and many offer differing types of customer flows and transactions. The Directors believe that different sites will be profitable for different reasons.

The Company has developed a three level retail outlet operating model.

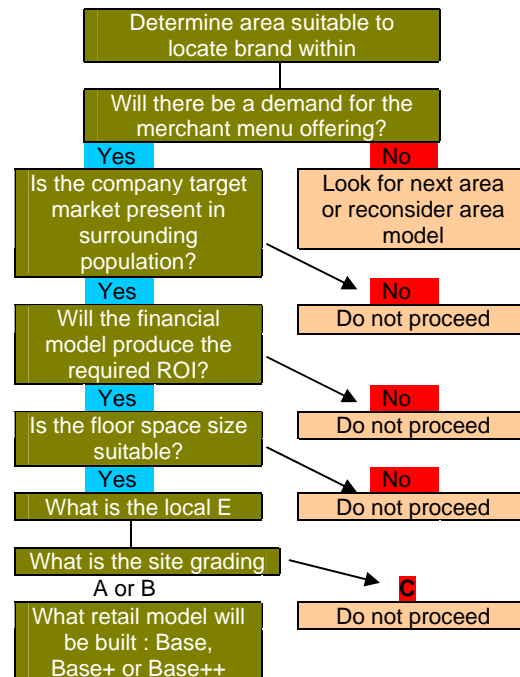
1. **BASE:** High volume, low average take per transaction. Grab and go. Limited seating. Limited menu. Counter service only.

2. **BASE+:** Moderate to High volume, high average take per transaction. Customer attracted to seating. Menu offers greater range of cakes and savory foods. Mixture of counter service and table service.

3. **BASE++:** Moderate to high volume, higher average take per transaction. Customer visits to dine in. a broader menu offering. Table Service provided.

The Directors believe that these three levels would give the brand the flexibility from a retail outlet operational level to offer a format that meets the local markets requirements.

Each model presents differing upfront cost structures and daily operating profitability structures thereby impacting on R.O.I.* results, a key considering when making an outlet investment. The Group must ensure that the right model goes into the correct site to achieve the best possible return on investment.



(R.O.I* – Return on investments)



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FORECAST NUMBER OF OUTLETS IN EACH MARKET

Over the next five financial years it is the Board's goal to develop The Merchant Group into a business that is valued in excess of £49 million. The Directors believe that this will be achieved by increasing its current 8 retail outlet operation to 350 outlets within four defined markets being Australia United Kingdom Europe and China.

	2007	2008	2009	2010	2011
UK	2	20	40	60	85
Europe	8	20	40	70	95
Australia	8	15	25	50	70
China	0	5	25	50	100
Total	18	60	130	230	350

STRATEGY

The Merchant Group International Plc strategy of focusing on research and development. The Company has so far experienced strong market interest for franchising The Merchant Group brand, and are encouraged by the volume and quality of its pipeline of prospective franchisees.

The directors believe that The Merchant Group has developed a franchise system that will place the

company ahead of its competition in the pursuit of the right franchisee. The Core position to be built in UK with licence sales, synergistic acquisitions and store roll outs.

This business plan has therefore been devised to map the way forward for the company to grow within four key markets – Australia, UK, Europe and in 2008 China.

NEW GROWTH OPPORTUNITIES

The Company expects to enter into Chinese market in 2008.

China is the world's seventh-largest economy and among the fastest growing. GDP officially grew by 11.1% in 2006, the fastest for nine years, and has averaged above 9.3% growth per annum over the last decade. With a population of 1.2 billion, China is currently Asia's second largest food and beverage market by value after Japan. Food consumption patterns in China have changed significantly as living standards have risen.

Just a decade ago, the earliest coffee shops appeared in the spate of luxury hotels catering only

to foreign customers. Maxwell House and Nescafe were the main options. Starbucks was the most popular and successful coffee house in China.

In the tea market there are many tea houses that exist with the vast majority of the Chinese population consuming tea daily.

The Directors believe that there seems to be a large gap in price depending mainly on target market and consumer behaviour. There seems to be no one outlet, which provides the services of coffee, tea and alcohol at once. Therefore the directors believe there exists a gap in the market for a first mover to China.

DIRECTORS

John Bertrand – Non Executive Chairman

Executive with established change agent capabilities. Created, built and moved into production solutions in treasury and retail banking, compliance, risk, cash management and payments. Attributes include senior level contacts, skilled in producing successful businesses and comfortable with sales and marketing. Strong motivational and mentoring experience gained from managing groups of people, from small teams up to 550 staff. Proven M&A software practitioner and creator of new products and services. Bachelor of Science (Civil Engineering and MBA (Warwick).

Chris Brown – Non-executive Director

Chris joined William Buck, Chartered Accountants, in 1986 and was appointed a Partner in 1988. He is both an accountant and management consultant.

An accountant by profession and strategist by nature,

his unique mixture of western business knowledge and understanding of eastern philosophy, allow him to establish mutually beneficial relationships across cultural boundaries. Areas of expertise include; Asian multi-jurisdictional negotiation of commercial ventures (China, Hong Kong, Indonesia, Malaysia, Singapore and Thailand) and market entry strategy - International tax planning - Venture capital syndicates - Commercialisation of intellectual property - Personal confident services for executors and trustees - Strategic planning - Estate and succession planning. Qualifications; Member of the Institute of Management Consultants in Australia - Certified Practising Accountant Australia - Registered Taxation Agent Australia – Member of the World Institute of Management Consultants - Member of the Australian Institute of Company Directors - Doctoral



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CONTINUED

degree in field of 'Commercialisation of Intellectual Capital' - Bachelor of Business (Law & Accounting) - Master of Business Administration.

Chris has held influential business appointments, including international trusteeships for offshore clients, directorships of public listed companies in Australia and USA and directorships of private companies in Australia, Singapore, Malaysia, China, New Zealand, England and USA.

Dan Bright - Managing Director and CEO

Dan's experience spans 38 years in the corporate, medium and small business sectors. Corporate marketing – 12 years, retailing and franchising – 22 years, business broking and banking - 4 years. He has owned, developed and operated 16 successful retail, franchise, and distribution/ wholesale outlets many of which are acknowledged as some of Western Australia's most prime retail businesses. He has owned and developed a successful sales and Distribution Company based in Melbourne, Victoria selling commercial stainless steel products through a

state-wide wholesale network of some 45 distributors. The business was subsequently acquired by Australia's largest stainless steel manufacturer. Areas of expertise include; Marketing - Business Development - Sales Negotiation - Business Brokerage - Franchising - Retailing - Wholesale/ Distribution.

He has held management positions in merchandising, sales and marketing within the corporate sector, and directorships of private companies in Australia. Dan was chairperson and executive committee member of several large retail-shopping complexes and has conducted business both locally and in overseas markets including England, Singapore, Malaysia and the Philippines.

Dan is innovative, has extensive commercial experience and knowledge coupled with strong people skills.

SHAREHOLDINGS

	Number	%
GN Solutions Pte Ltd	56,069,803	13.31
Navos World SA	50,594,974	12.01
Mei Tien Investments Ltd	50,075,809	11.89
GOE Investments Ltd	35,397,603	8.4

	Number	%
Devereux Montagu Int Ltd	20,230,000	4.8
Vianda Pty Ltd	18,5306,86	4.04
Redmont Resources Pty Ltd	15,173,772	3.6
C. Brown	10,973,257	2.6

3 YEAR PROJECTIONS

MGI Plc Profit & Loss statement

	2007 (Actual)	2008	2009	2010
Income	161,665	1,140,650	4,148,465	7,616,982
Expenses				
Management & Staff	141,085	241,000	273,000	298,000
Marketing & Travel	43,523	60,000	80,000	100,000
Stationary & Office	3,258	132,000	145,000	158,000
Professional & Capital fees	175,584	330,250	481,250	647,500
Total expense	363,450	763,250	979,250	1,203,500
Net Profit / (loss)	-201,785	377,400	3,169,215	6,413,482

BALANCE SHEET

AS AT 30TH JUNE 2007

Assets	
Cash	31,845
Establishment costs	922,467
Intellectual Property	2,044,500
Total Assets	2,998,812
Liabilities	
Trade creditors	26,190
Creditor - MTCC (Aus) Pty	90,000
VAT paid	-13,937
Loan - MTCC (UK)	-91,309
Loan - Olivia George	100,000
Total Liabilities	110,944
Net Assets	2,887,868
Equity	
Issued shares @.01p	3,142,875
Issued shares @ .0275	809654
Issued capital @ .0425	400000
Capital redemption reserve	-1,230,000
Retained earnings	-32,876
Current earnings	-201,785
Total Equity	2,887,868



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RISK FACTORS

An investment in the Company is subject to a number of risks. Accordingly, prospective investors should consider carefully all of the information set out in this document and the risks attaching to an investment in the Company, including, in particular, the risks described below, before making any investment decision. The information below does not purport to be an exhaustive list of all the risk factors involved in investing in the Company and they are not set out in any order of priority. In particular, the Company's performance might be affected by changes in market and/or economic conditions and in legal, regulatory and tax requirements. Investors should consider carefully whether investment in the Ordinary Shares is suitable for them in the light of the information in this document and their personal circumstances. Before making any final decision, prospective investors, if they are in any doubt, should consult with an investment adviser authorised under the Financial Services and Markets Act 2000. If any of the following risks were to materialise, the Company's business, financial position, results and/or future operations may be materially adversely affected.

The market price of the Ordinary Shares may go up or down and an investor may lose all or part of his/her investment. Additional risks and uncertainties not presently known to the Directors, or which the Directors currently deem immaterial, may also have an adverse effect upon the Company and the market price of the Ordinary Shares.

An investment in the Company is only suitable for financially sophisticated investors who are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may arise therefrom (which may be equal to the whole amount invested). There can be no certainty that the Company will be able to implement successfully the strategy set out in this document.

No representation is or can be made as to the future performance of the Group and there can be no assurance that the Group will achieve its objectives.

Investment risk

Investors should be aware that the market price of the Ordinary Shares may be volatile and may go down as well as up and investors may therefore be unable to recover their original investment. The price

at which the Ordinary Shares may trade and the price which investors may realise for their Shares will be influenced by a large number of factors, some specific to the Company and some which may affect publicly traded companies generally. This volatility could be attributable to various facts and events, including any regulatory or economic changes affecting the Group's operations, variations in the Group's operating results, developments in the Group's business or those of its competitors, changes in market sentiment towards the Ordinary Shares, large purchases or sales of shares, liquidity (or absence of liquidity) in the Ordinary Shares, currency fluctuations, legislative or regulatory changes and general economic conditions. In addition, the Group's operating results and prospects from time to time may be below the expectations of market analysts and investors.

Market perception

Market perception of Food & Drug Retailers companies may change, which could impact on the value of investors' holdings and impact on the ability of the Company to raise further funds by the issue of further shares in the Company.

Management

The Group's success depends upon the expertise and continued service of the Managing Director and other key personnel. The loss of the Managing Director and any other key personnel may have a material adverse impact on the Group's business. The departure from the Group of any Director could, in the short term, have a material adverse effect on the Group's business. Whilst the Group has entered into service agreements or contracts for services with the Directors with the aim of securing their services, the retention of their services cannot be guaranteed. Furthermore, the Group's future success depends upon its ability to attract and retain highly skilled and qualified personnel.

Competition

The Company's market position might be eroded should a company with more resources, a larger customer base, or more attractive brands or products enter the market. The Company may be unable to respond quickly or adequately to the strategies of competitors, or to new product and service offerings, or to the marketing or promotional efforts of such competitors.



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THE REPORT AIMS TO COVER THE FOLLOWING ASPECTS

Competition

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

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?

Profitable exit potential

What is the potential for selling the share profitably?

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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