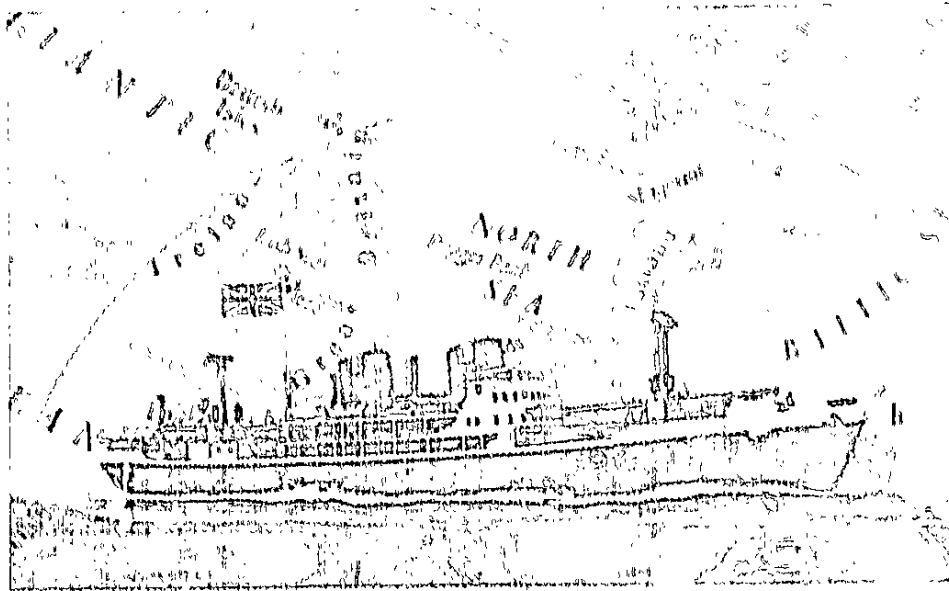


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THE MERCHANTS TRUST PLC



Kleinwort Benson  
INVESTMENT TRUSTS

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## KEY FACTS

**Investment Objective** *To provide an above average level of income and income growth together with long term growth of capital through a policy of investing mainly in higher yielding UK FTSE 100 companies.*

### Highlights of the Year

Revenue	1994	1993	% change
Gross Revenue	£18,049,765	£17,119,412*	+5.4
Available for Ordinary Dividend	£11,296,734	£10,432,984*	+8.3
Earnings per Ordinary Share	11.04p	10.20p*	+8.2
Dividend per Ordinary Share	11.00p	10.60p	+3.8

Assets	1994	1993	% change
Total Net Assets	£311,127,525	£242,331,521*	+28.4
Net Asset Value per Ordinary Share	302.9p	235.7p*	+28.5

Investments are valued on the basis set out in the Statement of Accounting Policies.  
Restated (see Note 19 on page 23)

### Financial Calendar

#### Results

Half-year announced early September.

Full-year announced early March.

Report and Accounts posted to Shareholders mid-April.

Annual General Meeting held early May.

#### Ordinary Dividends

First quarterly paid late August.

Second quarterly paid late November.

Third quarterly paid late February.

Final paid late May.

#### Preference Dividends

Payable half-yearly 1st August and 1st February.

#### Debenture Interest

Payable half-yearly 1st May and 1st November.

### Savings Scheme

Through the Kleinwort Benson Investment Trust Savings Scheme Shareholders are able to put additional investment into the Trust at low cost. Investments can be in the form of a regular payment or an individual lump sum and there is an arrangement for the reinvestment of dividends. Full details of the Scheme are available from the Managers on request.

### Personal Equity Plan

Shareholders can invest in the ordinary shares of the Trust through the Kleinwort Benson Investment Trust Personal Equity Plan. Full details are available from the Managers on request.

## CHAIRMAN'S STATEMENT

## Results

The results for the year ended 31st January 1994 show that net earnings per ordinary share were 11.04p, which should be compared with the 10.20p (restated - see below) recorded in the previous financial year. Your Board is recommending a final net quarterly dividend of 2.85p per share, giving total dividends for the 1993/94 financial year of 11.00p. This represents an increase of nearly 4%, when compared with the total of 10.60p per share paid for the previous financial year. In this way the Trust has achieved a further year of solid progress in dividend payments, with the rate of increase remaining ahead of the general level of price inflation.

In June of last year, the Trust raised £30m of new long term debt through a joint issue with three other Investment Trusts managed by Kleinwort Benson Investment Management Limited. The funds were raised through a pooled vehicle, Fintrust Debenture PLC, and are repayable in thirty years time. This issue restored the level of gearing to approximately the 20% level established at the time of the Stepped Loan issue in December 1987.

With the raising of new funds, the Board took the opportunity to review the accounting policy for the finance costs of long term borrowings in the light of the proposed financial reporting standard on capital instruments. Subsequently, the Board reviewed the accounting policy adopted for recognising income. With the agreement of the Auditors, your Board has decided

to make two significant changes in accounting policy which have required restatement of the 1993 comparative figures. First, as stated in the Interim Report, the finance costs of long term borrowings are now charged to capital and revenue in the ratio 50:50 to reflect the Company's investment policy and prospective income and capital growth. Second, to bring the Trust more into line with current accounting practice, dividend income is to be accounted for on an ex-dividend basis and interest on investments as it accrues on a daily basis - previously both were accounted for on a due date basis. These changes are stated more fully on page 16 and in note 19 on page 24.

The Trust's Revenue Account has benefited from renewed growth in the dividend income from quoted investments. Additionally, a high level of income was secured from the investment of over £30m in gilt-edged securities, coupled with buoyant receipts of underwriting commission. In contrast, income from cash deposits fell from £2.20m to £0.78m, which reflected a fully invested position for much of the year and the lower level of interest rates compared with 1992/93.

Over the last year the net assets attributable to the ordinary shareholders rose by 28.5% from 235.7p (restated) to 302.9p per ordinary share. This return, together with the dividend payments referred to above, gives a total return for the year ended 31st January 1994, on a gross basis, of 34.4%. This compares with a gross total return on the FT-Actuaries All-

# HISTORICAL RECORD

Year ended 31st January

## Revenue and Capital

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Gross Revenue (£000's)	6,272	6,539	7,734	9,930	12,342	15,334	17,230	18,104	17,119†	18,079
Earnings per Share (net)	3.04p	3.79p	4.62p	5.40pt	7.13pt	9.09pt	10.46pt	10.92pt	10.20pt*	11.43p
Paid net per Share	3.00p	3.75p	4.50p	5.40p	6.60p	8.00p	9.00p	10.00p	10.60p	11.00p
Tax Credit per Share	1.29p	1.57p	1.75p	1.89p	2.20p	2.67p	3.00p	3.30p	3.31p	2.75p
Gross Ordinary Dividend	4.29p	5.32p	6.25p	7.29p	8.80p	10.67p	12.00p	13.30p	13.91p	13.75p
Total Net Assets (£000's)	125,734	138,307	178,006	176,269†	211,991†	231,322†	197,514†	224,667†	242,331†	241,827
Net Assets attributable to Ordinary Capital (£000's)	124,556	137,129	176,828	175,091†	210,813†	230,144†	196,336†	218,829†	241,153†	209,949
Net Asset Value per Ordinary Share	121.7p	134.0p	172.8p	171.1pt	206.1pt	225.0pt	191.9pt	213.9pt	235.7pt*	302.9p

## Geographical Disposition of Invested Funds

	Percentage of Valuation									
United Kingdom	51.8	61.4	74.1	86.8	90.6	91.5	95.7	98.8	99.1	99.5
North America	31.3	27.3	20.0	11.9	9.1	8.5	4.3	1.2	0.9	0.5
Japan	8.5	3.8	—	—	—	—	—	—	—	—
Other Far East	2.4	1.5	1.8	0.1	—	—	—	—	—	—
Europe	3.8	5.4	4.1	1.2	0.3	—	—	—	—	—
Other Countries	2.2	0.6	—	—	—	—	—	—	—	—
	100	100	100	100	100	100	100	100	100	100

## Notes

† Restated to reflect the change in accounting policy for finance costs of long term borrowings.

\* Restated to reflect the change in accounting policy for dividends and interest on investments. The gross revenue, earnings per share and net asset value figures for years 1985 to 1992 have not been restated in respect of this change for reasons of practicality.

The share price, after adjustment for bonus issues, was 48.75p at 31st March 1982.

The ordinary share prices quoted in the London Stock Exchange Daily Official List for 31st January 1994 were 318p-323p.

## DIRECTORS AND MANAGEMENT

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### Directors

#### Colin Black (Chairman)

(Born February 1930) joined the Board in January 1992. Formerly Chairman of the Association of Investment Trust Companies, he is Chairman of Scottish Widows' Fund and Life Assurance Society and of Kleinwort Benson Investment Management Limited and is a Director of Scottish Power plc and Kleinwort Benson Group plc.

#### Sir John Banham

(Born August 1940) joined the Board in August 1992. Formerly Director General of the CBI he is Chairman of ECI Ventures Limited, Tarmac PLC and West Country Television Limited and is a Director of National Westminster Bank PLC, National Power PLC and John Labatt Limited.

#### Sir Derek Birkin T.D.

(Born September 1929) joined the Board in May 1986. He is Chairman of RTZ Corporation PLC and is a Director of Barclays PLC, Unilever PLC, CRA Limited, Carlton Communications plc, and Merck & Co Inc.

#### David Hopkinson C.B.E., F.D., D.L.

(Born August 1926) joined the Board in July 1973. Formerly Chairman of M & G Investment Management Limited, Managing Director of M & G Group plc, and Chairman of Harrisons & Crosfield PLC, he is a Director of Wolverhampton and Dudley Breweries plc and Charities Investment Management Limited.

#### Sir Thomas Risk

(Born September 1922) joined the Board in July 1973. Formerly Governor of the Bank of Scotland and a Director of Shell (UK) Limited, he is a Director of MSA (Britain) Limited.

#### Sir Anthony Tuke

(Born August 1920) joined the Board in January 1969. Formerly Chairman of Barclays Bank PLC and RTZ Corporation PLC and Deputy Chairman of Royal Insurance PLC, he is Chairman of Savoy Hotel PLC.

#### Ben Siddons F.C.A.

- alternate director to Colin Black (Born May 1945) he is Chairman of Kleinwort Benson Investment Trusts and is a Director of Kleinwort Benson Investment Management Limited, Kleinwort Smaller Companies Investment Trust plc, The Brunner Investment Trust PLC, Kleinwort Development Fund PLC and Kleinwort High Income Trust plc.

### The Managers

#### *Kleinwort Benson Investment Management Limited*

Kleinwort Benson Investment Management and associated companies currently manage assets valued at £17.1bn. This sum is made up of investment trust, unit trust, offshore and pension fund portfolios as well as monies entrusted to their care by other institutional and private clients. KBIM is a member of the London Stock Exchange and IMRO. Through the Kleinwort Benson Group, KBIM has a strong network of international connections. In North America, Kleinwort Benson has offices in New York, Chicago and Los Angeles. In Europe it has offices in Frankfurt, Geneva and Madrid. In the Pacific Basin it has offices in Hong Kong and Tokyo and has agents in other key countries.

### Fund Manager

Nigel Lanning A.I.M.R. A.C.I.S. a Director of Kleinwort Benson Investment Management Limited, is manager of the portfolio.

### Secretary and Registered Office

Peter Longcroft, A.C.I.S.  
10 Fenchurch Street,  
London, EC3M 3JB  
Telephone: 071-956 6600

### Registrars and Transfer Office

Barclays Registrars,  
Bourne House,  
34 Beckenham Road,  
Beckenham, Kent BR3 4TU

### Registered Number

28276

### Auditors

Price Waterhouse,  
Chartered Accountants,  
Southwark Towers,  
32 London Bridge Street,  
London SE1 9SY

### Bankers

Barclays Bank PLC  
Kleinwort Benson Limited

### Stockbrokers

Cazenove & Co.

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London SE1 9SY

### Bankers

Barclays Bank PLC  
Kleinwort Benson Limited

### Stockbrokers

Cazenove & Co.

### Economic Background

The last financial year was very unusual in that it included only one change in UK base rates, the reduction of 0.5% to 5.5% just before the November Budget. Nevertheless, it was the expectation of lower interest rates, at home and in Continental Europe, which drove markets higher for much of 1993. In general, inflation in the UK and elsewhere was somewhat below the

level, forecast early in the year and this led bond markets to discount long term interest rates at levels not seen for nearly 20 years.

The available evidence suggests that growth in *Gross Domestic Product* was 2.5% for the UK in 1993. This is a substantial improvement compared with 1992 and has been brought about by the rebuilding of consumer confidence following the sharp fall in interest rates at the end of that year. It is encouraging to see that exporters

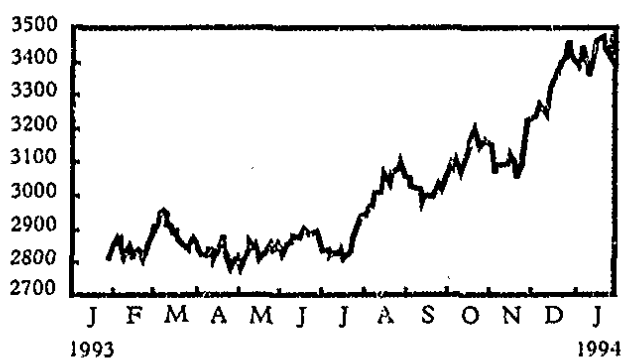
have gained considerable benefit from the devaluation of sterling despite the sluggishness of European economies. Company profits have begun to show a useful improvement following the end of the recession and the revival in dividend growth has also been a welcome occurrence.

### Market Background

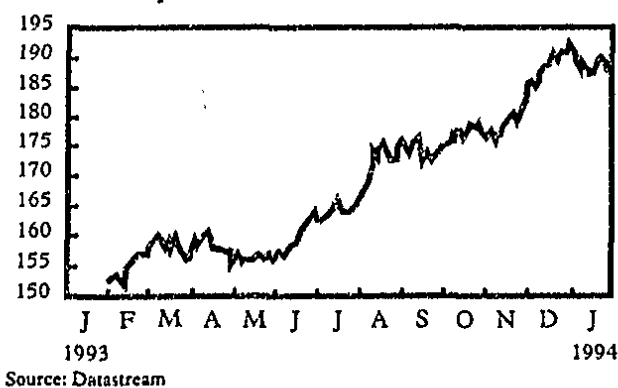
The year can be divided into two halves with the first six months recording a steady 6% rise in the FT Actuaries All-Share Index. This performance was based on a gradual improvement in conditions for the corporate sector as the economy benefited from sterling's devaluation and the previous year's relaxation in monetary policy. In contrast the second half produced a substantial revaluation, with UK equities rising by over 20% up to 31st January 1994.

There were two driving forces behind this very buoyant trend. Firstly, the effective break-up of the ERM in July and August led to widespread expectations of a rapid fall in European interest rates. Although the resultant cuts were more modest than expected, investors were attracted by the prospect that sterling interest rates would have to follow suit. Secondly, the November Budget included a tougher than expected approach to the control of public expenditure, which in turn led to a downward reappraisal of the Government's funding needs in 1994/95. Confidence was reinforced further by the fall in the underlying inflation rate to below 3% which took place despite the improvement in economic growth.

FTSE 100 - Price Index



FTA British Government Over 15yrs - Price Index



**Equities**

The revival of interest in recovery situations has had a particularly positive impact on the Trust's portfolio during the last financial year. Nevertheless, the large number of dividend cuts during 1992 meant that many of these companies did not have the traditional attraction of high income. In addition, the subdued nature of the economic recovery has required a vigilant approach for investors seeking those companies which offer growth prospects over the medium term. This environment has meant that an active approach was necessary to secure the Trust's income targets.

Amongst those companies which are expected to benefit from the improvement in economic conditions, the Trust has raised its holdings in the property sector through Slough Estates, where the holding was increased, and MEPC when the shares were depressed at the time of the rights issue in July. Additionally, a new holding has been purchased in Redland, which offers an attractive dividend yield as well as an exposure to the more buoyant construction markets in the US, the UK and East Germany. In the cases of Barclays and Forte, the shares were purchased earlier in the financial year and subsequently sold at a useful profit.

The substantial fall in values in the pharmaceutical sector in the last year led to a series of buying opportunities. These companies offer the combination of strong balance sheets and cash flows, together with

**Investment Changes**

	UK Equities	US Equities	Fixed Interest	Total
Valuation 31 January 1993	250,788,100	2,334,094	10,564,200	263,686,394
Purchases	62,917,149	37,328	18,662,250	81,616,727
Sales Proceeds	(56,638,033)	(803,815)	—	(57,441,848)
Gains and Losses	66,888,194	223,517	3,809,741	70,921,452
Valuation 31 January 1994	323,955,410	1,791,126	33,633,191	359,379,727

**Thirty Largest Equity Holdings**

	Valuation 31 Jan. 1993 £000's	Purchases or (Sales) £000's	Net Appreciation (Depreciation) £000's	Valuation 31 Jan. 1994 £000's	%
BT	11,257	2,891	2,222	16,370	4.56
National Westminster	10,608	—	3,648	14,256	3.97
B.A.T. Industries	11,724	412	1,487	13,623	3.80
Eastern Electricity	6,970	—	4,930	11,900	3.32
Shell Transport & Trading	8,370	—	2,640	11,010	3.07
British Gas	11,340	(3,602)	2,082	9,820	2.74
Great Universal Stores	5,820	—	3,112	8,932	2.49
East Midlands Electricity	4,812	—	3,588	8,400	2.34
North West Water	6,331	298	1,688	8,317	2.32
Prudential Corporation	5,833	788	1,334	7,955	2.22
Land Securities	4,503	—	2,727	7,230	2.02
Commercial Union	3,344	2,696	891	6,931	1.93
Lloyds Bank	—	6,083	594	6,677	1.86
Charter Consolidated	5,185	—	1,077	6,262	1.75
Cadbury Schweppes	4,640	444	860	5,944	1.66
General Accident	4,604	—	1,208	5,812	1.62
BTR	4,719	90	847	5,656	1.58
Thames Water	4,311	—	1,071	5,382	1.50
Guardian Royal Exchange	3,486	—	1,598	5,084	1.42
Barclays	4,200	(1,741)	2,557	5,016	1.40
Slough Estates	2,144	562	2,275	4,981	1.39
Zeneca	—	3,587	1,347	4,934	1.38
Dalgety	4,835	—	90	4,925	1.37
*Sun Alliance	2,916	1,000	971	4,887	1.36
Allied-Lyons	5,780	(1,425)	438	4,793	1.34
P&O Steam Navigation	3,395	219	1,169	4,783	1.33
BOC	3,672	1,027	(9)	4,690	1.31
GEC	3,908	(49)	724	4,583	1.28
Legal & General	3,825	—	706	4,531	1.26
Boots	2,994	888	534	4,416	1.23
				<u>60,822</u>	

\*Includes Convertible Bonds - Value £1,232,500

scope for real dividend increases. The managers have thus established holdings in Glaxo and also in Zeneca, the latter being purchased at the time of its demerger from ICL. Additionally, a holding was purchased in the Granada 7% Convertible.

Amongst the existing holdings, the managers have looked very closely at those shares which may be subject to intensifying competitive pressures. In this light the investment in British Gas was top-sliced ahead of the Monopolies Commission report. In addition, a number of the holdings in the brewing sector were reduced, bearing in mind the excess capacity that exists in that industry. Amongst the complete disposals during the year the most significant were ICL, which is beset by tough competition in Europe, and Lloyds Abbey Life, where it is thought that sales momentum may be difficult to sustain.

Amongst the remaining non-core holdings in the portfolio, there have been further sales of unlisted shares which realised nearly £0.75m. Principally this was achieved through the takeover of Aberdeen Petroleum by Pittencrieff PLC. The removal of restrictions on dealings in Roper Industries permitted the realisation of a further £0.5m. The investments in the unlisted category are now confined to the US and represent only 0.5% of funds invested

#### Fixed Interest

The appreciation in fixed interest markets has provided an attractive opportunity for the Trust to secure

#### United Kingdom Listed Equity Holdings at 31st January 1994

BT	16,370,250	Telecommunications
National Westminster	14,256,000	Banking group
B.A.T. Industries	11,625,119	Tobacco and financial services
Eastern Electricity	11,900,000	Electricity distribution
Shell Transport & Trading	11,010,000	International integrated oil and gas group
British Gas	9,819,659	Gas production and distribution
Great Universal Stores	8,931,600	Mail order and multiple retailer
East Midlands Electricity	8,400,000	Electricity distribution
North West Water	8,317,304	Water distribution
Prudential Corporation	7,955,000	Life and general insurance
Land Securities	7,229,500	Property investment and development
Commercial Union	6,931,455	Composite insurance
Lloyds Bank	6,676,000	Banking group
Charter Consolidated	6,262,000	Diversified holding company
Cadbury Schweppes	5,944,444	Confectionery, soft drinks and food
General Accident	5,812,000	Composite insurance
BTR	5,656,356	Industrial conglomerate
Thames Water	5,382,000	Water distribution
Guardian Royal Exchange	5,033,750	Composite insurance
Barclays	5,016,000	Banking group
Slough Estates	4,980,625	Property investments
Zenera	4,933,688	Manufacture of pharmaceuticals
Dalgety	4,925,000	Food manufacturer
o Sun Alliance	4,836,708	Insurance
Allied-Lyons	4,792,500	Brewer, wines, spirits and food
P & O Steam Navigation	4,783,171	Shipping and property
BCC	4,689,750	Gases and health care
GEC	4,583,250	Electronics and electrical equipment
Legal & General	4,530,500	Life and general insurance
Boots	4,416,000	Chain store
Angyll	4,403,000	Food retailing
Scottish & Newcastle	4,327,500	Brewing and leisure
† Blue Circle Industries	4,240,575	Cement manufacturer
Bass	4,103,500	Brewing and distilling
† Granada	4,096,875	Television, entertainment and leisure
United Biscuits	4,026,000	Food manufacturer
Booker	4,018,550	Food manufacturer
Ladbroke	3,974,671	Hotels, betting, DIY and property
Unigate	3,860,000	Food manufacturing
Calor Group	3,839,000	Gas distributors
Smith & Nephew	3,465,000	Healthcare manufacturer
Sears	3,451,250	Diversified retailing group
Anglian Water	3,444,000	Water distribution
English China Clays	3,408,750	China clay extraction and building products
MEPC	3,279,000	Property investment
Kleinwort Benson	3,214,264	Merchant bank
† British Aerospace	3,106,125	Aircraft, missile and motor manufacturer
Whitbread	3,047,200	Brewing and distilling
o BPB Industries	2,929,197	Building materials and packaging
GKN	2,915,000	Engineering and industrial services
Redland	2,882,425	Building materials
BICC	2,705,862	Cable manufacture and construction
Glaxo	2,656,000	Pharmaceuticals
Dawson International	2,650,500	Textiles
x Hanson	2,536,000	Industrial conglomerate
Glynwed International	2,316,000	Engineering and building materials
RTZ	2,236,250	Metals and materials
x ELF Enterprise Finance	2,172,292	Oil exploration and production
Southern Electric	2,154,000	Electricity distribution
o Kleinwort Benson UK		
Property Investment	2,090,211	LK property investment
Sedgwick	2,065,000	Insurance broker
Enterprise Oil	1,864,000	Oil exploration and production
Hillsdown	1,408,000	Food manufacturer
† Williams Holdings	1,263,750	Industrial conglomerate
Union Discount	1,169,500	Discount house
Oliver	320,347	Footwear retailing
	£323,955,410	93.29% of Total Invested Funds

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**Fixed Interest Holdings**

at 31st January 1994

	Value (£)	Description
Treasury 8 1/2% Loan 2007	14,186,916	Gilt-edged stock
Conversion 9 1/2% Stock 2004	6,946,539	Gilt-edged stock
Treasury 8% Loan 2002/06	5,654,315	Gilt-edged stock
Conversion 9 1/2% Stock 2005	5,587,248	Gilt-edged stock
Felixstowe Dock Pref Units	658,173	Port operator
	<b>£33,033,191</b>	<b>9.21% of Total Invested Funds</b>

**North America Unlisted Holdings**

at 31st January 1994

	Value (£)	Principal Activities
Mezzanine Lending Association	1,075,980	Leverage buy-out fund
Transatlantic Ventures	421,920	Fund of unquoted technology companies
* J.W. O'Connor Group	214,156	US property investment
Harrow Industries	70,770	Furniture and hardware products for house and garden
Republic Geothermal	7,998	Geothermal energy, exploration and development
	<b>£1,780,824</b>	<b>0.50% of Total Invested Funds</b>

\* Investment in high-subsidary company Sutor's Investments Inc. (US)

both capital appreciation and a high level of income in real terms. Shareholders will recall that the Trust had £10.5m invested in gilt-edged securities on 31st January 1993 and a further £18.8m was added to this during the last financial year. As a result the total in gilt-edged was £33.0m or 9.2% of invested funds, at the year end. These investments have continued to play a useful tactical role, as mentioned in last year's report. Whilst inflationary pressures remain somewhat muted, the investments in the gilt-edged market will help the Trust to secure its core level of investment income.

**Future Policy**

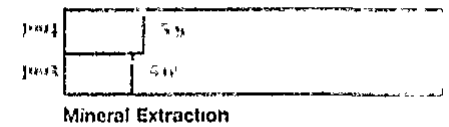
It appears that UK interest rates are close now to the low point in their cycle and that there may be little further stimulus for the market from this source. UK equities are thus dependent on earnings growth to sustain current market levels. The managers plan to emphasise those investments which are likely to participate in this earnings trend and, in particular, those which offer the prospect of above average dividend growth. Indeed, the improved health of the corporate sector, in terms of balance sheet strength and dividend cover, suggests that a more optimistic view can be taken towards prospective dividend payments. Nevertheless, it remains of great importance to maintain the quality of the portfolio and this will continue to be a prime element in the investment policy.

# DISTRIBUTION OF INVESTED FUNDS

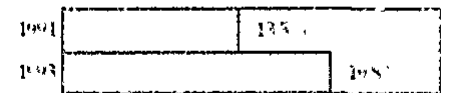
at 31st December 1994

Invested Funds – £358,779,725 (1993 – £263,683,394)

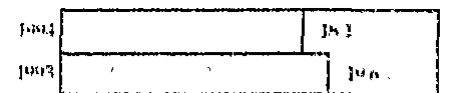
Equities (including convertibles)	Percentage of Valuation			
	U.K.	North America	1994 Total	1993 Total
<b>Mineral Extraction</b>				
Extractive Industries	1.6	—	1.6	0.9
Oil, Integrated	3.1	—	3.1	3.2
Oil Exploration & Production	1.1	—	1.1	0.9
	<u>5.8</u>	<u>—</u>	<u>5.8</u>	<u>5.0</u>
<b>General Manufacturers</b>				
Building Materials	2.8	—	2.8	2.1
Chemicals	1.3	—	1.3	3.2
Diversified Industries	4.4	—	4.4	6.9
Electronic & Electrical Equipment	2.0	—	2.0	2.2
Engineering	1.5	—	1.5	2.1
Engineering, Vehicles	0.8	—	0.8	1.8
Textiles & Apparel	0.7	—	0.7	1.5
	<u>13.5</u>	<u>—</u>	<u>13.5</u>	<u>19.8</u>
<b>Consumer Groups</b>				
Breweries	3.2	—	3.2	3.7
Spirits, Wines & Ciders	1.3	—	1.3	2.2
Food Manufacturers	6.7	—	6.7	7.7
Health Care	1.0	—	1.0	1.6
Pharmaceuticals	2.1	—	2.1	0.0
Tobacco	3.8	—	3.8	4.4
	<u>18.1</u>	<u>—</u>	<u>18.1</u>	<u>19.6</u>
<b>Services</b>				
Leisure & Hotels	2.3	—	2.3	3.4
Retailers, Food	1.2	—	1.2	0.0
Retailers, General	4.8	—	4.8	4.4
Transport	1.3	—	1.3	2.3
	<u>9.6</u>	<u>—</u>	<u>9.6</u>	<u>10.1</u>
<b>Utilities</b>				
Electricity	6.3	—	6.3	4.5
Gas Distribution	3.8	—	3.8	5.3
Telecommunications	4.6	—	4.6	4.3
Water	4.8	—	4.8	4.0
	<u>19.5</u>	<u>—</u>	<u>19.5</u>	<u>18.1</u>
<b>Financials</b>				
Banks	7.3	—	7.3	5.6
Insurance	6.9	—	6.9	10.7
Life Insurance	3.5	—	3.5	1.5
Merchant Banks	0.9	—	0.9	0.7
Other Financial	0.3	0.4	0.7	1.4
Property	4.9	0.1	5.0	3.5
	<u>23.8</u>	<u>0.5</u>	<u>24.3</u>	<u>23.4</u>
<b>Total Equities</b>	<u>90.3</u>	<u>0.5</u>	<u>90.8</u>	<u>96.0</u>
<b>Fixed Interest</b>				
Government Securities	9.0	—	9.0	3.8
Preference	0.2	—	0.2	0.2
<b>Totals</b>	<u>99.5</u>	<u>0.5</u>	<u>100.0</u>	<u>100.0</u>



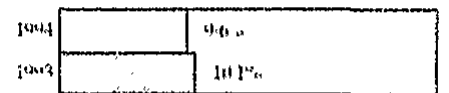
Mineral Extraction



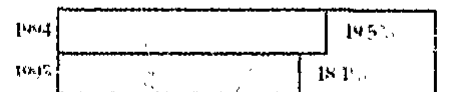
General Manufacturers



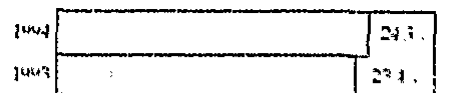
Consumer Groups



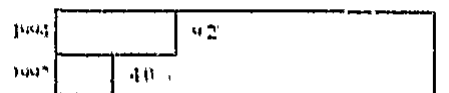
Services



Utilities



Financials



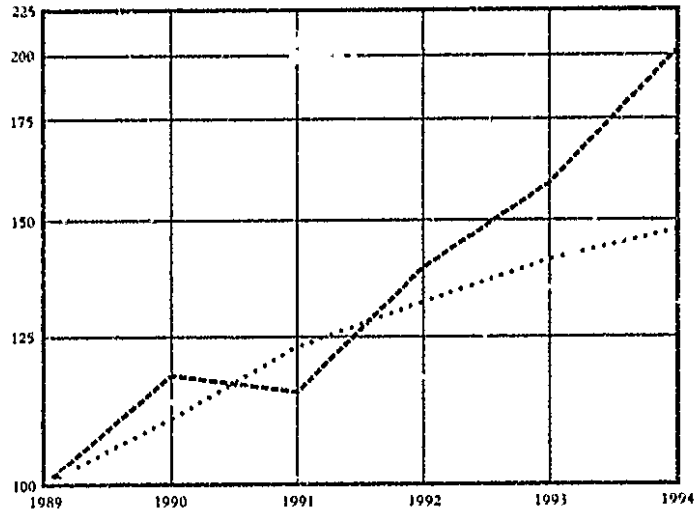
Fixed Interest

The above groupings are based on the FT Actuaries Share Index

# PERFORMANCE GRAPHS

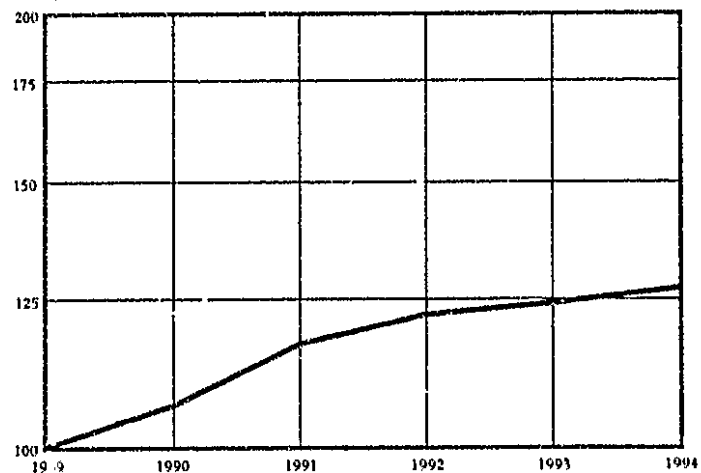
at 31st January 1994

**The Merchants Trust plc**  
5 year record - 31st January 1989 = 100



-----	FTSE 100 Index total return (net income re-invested)
—————	Merchants NAV total return (net income re-invested)
.....	Building Societies Highest Rate (net income re-invested)

**The Merchants Trust plc**  
5 year record - 31st January 1989 = 100



—————	Merchants Net Dividend
-----	Retail Price Index

## REVENUE ACCOUNT

to the total credit list forms in 1994

	1994 (£)	1994 (€)	1993 (€) (restated) Note 19
<b>Income from Fixed Asset Investments</b>			
<i>Franked income from</i>			
Listed investments		12,597,420	14,224,286
<i>Unfranked income from (Note 1)</i>			
Listed investments	4,219,679		476,418
Unlisted investments	69,308		112,567
		4,288,987	588,985
		16,886,407	14,813,271
<b>Other Income</b>			
Deposit interest	784,291		2,195,650
Underwriting commission	379,067		110,491
		1,163,358	2,306,141
<b>Gross Revenue</b>		18,049,765	17,119,412
Expenses of administration (Note 2)	(1,637,485)		(1,289,995)
Finance costs of borrowings (Note 3)	(2,550,853)		(1,614,567)
		(4,188,338)	(2,904,562)
Revenue before Taxation		13,861,427	14,214,850
Taxation (Note 4)		(2,521,696)	(3,738,869)
Revenue after Taxation		11,339,731	10,475,981
Dividends on Preference Stock		(42,997)	(42,997)
<b>Revenue available for Ordinary Shares</b>		11,296,734	10,432,984
<i>Dividends on Ordinary Shares of 25p</i>			
1st Interim 2.65p paid 27th August 1993	(2,711,360)		(2,711,360)
2nd Interim 2.65p paid 19th November 1993	(2,711,360)		(2,711,360)
3rd Interim 2.85p paid 25th February 1994	(2,915,991)		(2,711,360)
Final 2.85p proposed	(2,915,991)		(2,711,360)
(1993 - total 10.60p)		(11,254,702)	(10,845,440)
Revenue retained (transferred) for the year		42,032	(412,456)
Revenue Reserve brought forward		7,214,226	7,626,682
Revenue Reserve carried forward (Note 11)		£7,256,258	£7,214,226
<b>Earnings per Ordinary Share (Note 5)</b>		11.04p	10.20p

The Notes on pages 15 to 24 form part of these Accounts

# BALANCE SHEET

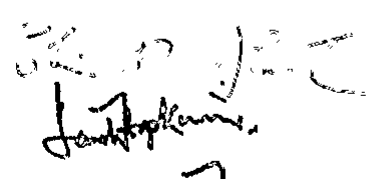
at 31st January 1994

	1994 (£)	1993 (£)
<b>Fixed Assets</b>		
Investments (Note 7)	358,774,725	263,683,394
<b>Current Assets</b>		
Debtors (Note 8)	4,828,331	2,182,357
Cash at bank (Note 8)	21,034,481	17,169,254
	<u>25,852,812</u>	<u>19,351,611</u>
<b>Creditors</b>		
Amounts falling due within one year (Note 8)	<u>(10,705,425)</u>	<u>(8,827,550)</u>
<b>Net Current Assets</b>	<u>15,147,387</u>	<u>10,523,791</u>
<b>Total Assets less Current Liabilities</b>	<u>373,922,112</u>	<u>274,207,185</u>
<b>Creditors</b>		
Amounts falling due after more than one year (Note 8)	<u>(62,801,587)</u>	<u>(31,875,664)</u>
<b>Total Net Assets</b>	<u>£311,120,525</u>	<u>£242,331,521</u>
<b>Capital and Reserves</b>		
<i>Called up share capital:</i>		
Ordinary (Note 10)	25,578,869	25,578,869
Preference (Note 10)	1,178,000	1,178,000
Share Premium Account (Note 12)	8,183	8,183
<i>Capital Reserves:</i>		
Realised (Note 13)	160,634,707	153,763,331
Unrealised (Note 13)	<u>116,471,508</u>	<u>54,588,912</u>
	277,106,215	208,352,243
Revenue Reserve (Note 11)	<u>7,256,258</u>	<u>7,214,226</u>
	<u>£311,120,525</u>	<u>£242,331,521</u>

The financial statements on pages 12 to 24 were approved by the Board of Directors on 30th March 1994 and signed on its behalf by:-

COLIN H. BLACK } Directors  
DAVID HOPKINSON }

The Notes on pages 16 to 21 form part of these Accounts



# STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

to the year ended 31st January 1994

	1993 (£)	1994 (£)	1993 (£)
<b>Capital gains and losses on investments</b>			
Realised gains and losses	9,038,856		1,880,186
Less: Related amounts recognised as unrealised in the previous period	(5,113,061)		(9,634,235)
		3,925,795	(7,754,047)
Unrealised gains and losses arising in the year		66,995,657	30,219,139
		70,921,452	22,465,092
<b>Other capital items</b>			
Exchange gains on foreign currency transactions	23,944		3,134
Finance costs of borrowings	(2,550,853)		(1,614,502)
Taxation relief on finance costs of borrowings	359,429		268,825
		(2,167,480)	(1,342,543)
<b>Total capital gains and losses (Note 14)</b>		68,753,972	21,122,549
<b>Revenue profit available for distribution</b>		11,339,731	10,475,981
<b>Total recognised gains and losses for the year</b>		80,093,703	£31,598,530
Prior year adjustment (Note 19)		1,392,368	
<b>Total gains and losses recognised since last annual report</b>		£81,486,071	

# CASH FLOW STATEMENT

For the year ended 31 December 2023

	2023	2022
<b>Net cash inflow from operating activities</b>		
<i>Note 15</i>	11447153	12876887
<b>Returns on investments and servicing of finance</b>		
Dividends paid	(10888437)	(10581491)
Interest paid	(3433228)	(2007716)
<b>Net cash outflow from returns on investments and servicing of finance</b>	(14341665)	(12679207)
<b>Taxation</b>		
UK Income tax paid	(10734)	(416029)
UK Corporation tax paid	—	(60724)
Taxation credits repaid	88556	—
<b>Net tax repaid (paid)</b>	77822	(476753)
<b>Investing activities</b>		
Payments to acquire fixed asset investments	(80755148)	(72471136)
Receipts on disposal of fixed asset investments	55623036	76198413
<b>Net cash (outflow) inflow from investing activities</b>	(25132112)	3727280
<b>Net cash (outflow) inflow before financing</b>	(25948802)	3468207
<b>Financing</b>		
Fixed Rate Interest Loan repayable in 2023	29858947	—
<b>Net cash inflow from financing (Note 18)</b>	29858947	—
<b>Increase in cash and cash equivalents (Note 16)</b>	<u>£3,910,145</u>	<u>£3,468,207</u>

See Notes on pages 16 to 21 form part of this Account

# STATEMENT OF ACCOUNTING POLICIES

for the year ended 31st January 1994

(i)

The accounts have been prepared under the historical cost convention, modified to include the revaluation of investments and in accordance with applicable accounting standards.

(ii)

Revenue—Dividends (including preference dividends) are accounted for on an ex-dividend basis and are grossed up at the appropriate rate of tax credit. Interest on investments is accounted for as it accrues on a daily basis. In previous years, dividends and interest on investments were accounted for on a due date basis in the Revenue Account. Bought and sold interest were taken to Capital Reserves. A prior year adjustment has been made in respect of this change in accounting policy (Note 19).

Enhanced scrip dividends are accounted for by crediting the full value to the Revenue Account. Deposit interest receivable is accounted for on an accruals basis. Underwriting commission is accounted for on a receipts basis.

(iii)

Investment management fee – The investment management fee is calculated on the basis set out in Note 2 and is charged to the Revenue Account in full.

(iv)

Investments listed in the United Kingdom have been valued at middle market prices. Those listed abroad have been valued at closing or middle market prices as available. Unlisted investments are valued by the Directors based upon latest dealing prices, stockbrokers' valuations, net asset values, earnings and other known accounting information. Net gains or losses arising on realisation of investments together with differences between value and book cost are taken directly to Capital Reserves.

(v)

Advance corporation tax attributable to dividends accrued or proposed at the balance sheet date is offset against the tax credits arising from estimated franked investment income receivable up to the date of payment of the advance corporation tax. Any unrelieved amount is included in the balance sheet as a creditor and as a debtor to the extent that it is recoverable in the short term.

(vi)

Deferred taxation is provided using the liability method on all timing differences which are expected to crystallise in the foreseeable future, calculated at the rate at which it is estimated that the tax benefit or liability will accrue.

(vii)

In accordance with Financial Reporting Standard 4 "Capital Instruments", long term borrowings are stated at the amount of net proceeds immediately after issue plus the appropriate accrued finance costs at the balance sheet date. The finance costs of such borrowings, being the difference between the net proceeds of a borrowing and the total payments that may be required in respect of that borrowing, are allocated to periods over the term of the debt at a constant rate on the carrying amount. Finance costs on long term borrowings together with related tax relief are charged to Capital Reserves and the Revenue Account in a ratio 50:50 to reflect the Company's investment policy and prospective income and capital growth.

Previously all interest relating to the Company's long term borrowings were charged to the Revenue Account as incurred while the redemption premium on the Company's Stepped Rate Interest Loan was being charged to Capital Reserves over a ten year period. A prior year adjustment has been made in respect of this change in accounting policy (Note 19).

(viii)

Transactions in foreign currencies are recorded at the rates ruling on the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date, and profits or losses arising therefrom are taken direct to Capital Reserves.

# NOTES TO THE ACCOUNTS

for the year ended 31st January 1994

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## 1. Unfranked Income from Fixed Asset Investments

	1994 (£)	1993 (£) (restated)
Interest from UK fixed income stocks	2,331,635	317,605
Enhanced scrip dividends from UK equity securities	1,726,415	—
Interest from overseas fixed income securities	—	2,556
Dividends from overseas equity securities	230,937	268,824
	<u>£4,288,987</u>	<u>£588,985</u>

## 2. Expenses of Administration

	1994 (£)	1993 (£)
Investment management fee	1,350,637	1,055,586
Banks' safekeeping and other charges	13,036	20,160
Directors' emoluments	65,600	67,615
Auditors' remuneration	7,840	7,800
Trustee's fees	705	1,206
Other administrative expenses	201,367	139,326
VAT recovered	(1,700)	(1,698)
	<u>£1,637,485</u>	<u>£1,289,995</u>

(i) The above expenses include value added tax where applicable.

(ii) The management agreement with Kleinwort Benson Investment Management Limited, which is terminable on three years' notice, provides for a fee, payable quarterly, of 0.35% per annum of the value of the assets after deduction of current liabilities, short term loans under one year and unit trusts and offshore funds managed by Kleinwort Benson Investment Management Limited.

(iii) Directors' emoluments were as follows:

	1994	1993
Chairman and highest paid director	£11,414	£12,000
The emoluments of the other directors fell within the following ranges:		
£0 - £5,000	2	1
£5,001 - £10,000	4	4
£10,001 - £15,000	1	1

(iv) Included within other administrative expenses is an amount of £5,581 (1993 - £ nil) payable to the Auditors in respect of non-audit services.

## 3. Finance Costs of Borrowings

	1994 (£)	1993 (£)
On Stepped Rate Interest Loan repayable after more than five years	1,638,761	1,587,002
On 4% Perpetual Debenture Stock repayable after more than five years	27,500	27,500
On Fixed Rate Interest Loan repayable after more than five years	884,592	—
On sterling overdraft	—	65
	<u>£2,550,853</u>	<u>£1,614,567</u>

The total finance costs of the Stepped Rate Interest Loan, 4% Perpetual Debenture Stock and the Fixed Rate Interest Loan were £3,277,522, £55,000, and £1,769,184 respectively (1993 - £3,174,004, £53,000 and £ nil) of which £1,638,761, £27,500 and £884,592 respectively (1993 - £1,587,002, £27,500 and £ nil) have been charged to Capital Reserves (Note 13).

## 4. Taxation

	1994 (£)	1993 (£)
Tax credit for unrelieved management expenses at 20% (1993 - 25%)	(374,030)	(88,697)
Overseas taxation	298	2,428
Tax credits on banked investment income	2,535,009	3,556,072
Underprovision of tax for previous year	—	241
Total taxation	<u>2,162,267</u>	<u>3,470,044</u>
Transferred to Capital Reserves (Note 13)	359,429	268,825
Chargeable to Revenue Account	<u>£2,521,696</u>	<u>£3,738,869</u>

## 5. Earnings per Ordinary Share

The calculation of earnings per Ordinary Share is based on net earnings of £11,296,734 (1993 - £10,432,984 *re-stated*) and 102,315,478 Ordinary Shares of 25p in issue.

### 6. Contingent Liabilities and Guarantees

At 31st January 1994 there were outstanding contingent liabilities of £3,001,783 (1993 - £2,673,243) in respect of underwriting commitments and calls on partly paid investments.

The Company has guaranteed the repayment of £34,034,112 11-12% Severally Guaranteed Debenture Stock 2018 issued by First Debenture Finance PLC as part of the terms of its Stepped Rate Loan and there is a floating charge on all the Company's present and future assets to secure this obligation.

### 7. Fixed Asset Investments

	1994 (£)	1993 (£)
Listed at Market Valuation on recognised Stock Exchanges		
Great Britain	354,898,390	259,606,928
Abroad	2,090,211	2,439,674
	<u>356,988,601</u>	<u>261,446,602</u>
Unlisted at Directors' Valuation		
Great Britain	—	407,409
Abroad	1,576,668	1,634,584
Subsidiary (Note 9)	214,456	194,799
	<u>1,791,124</u>	<u>2,236,792</u>
	<u>£358,779,725</u>	<u>£263,683,394</u>
Market value of investments held at 1st February	263,683,394	240,751,579
Unrealised net appreciation at 1st February	(54,588,912)	(34,004,008)
Cost of investments held at 1st February	209,094,482	206,747,571
Additions at cost	81,616,727	74,462,044
Disposals at cost	(48,402,992)	(72,115,133)
Cost of investments held at 31st January	242,308,217	209,094,482
Unrealised net appreciation at 31st January	116,471,508	54,588,912
Market value of investments held at 31st January	<u>£358,779,725</u>	<u>£263,683,394</u>

The Company owns more than 10% of the following companies, both of which are incorporated in Great Britain and registered in England and Wales:

Company	Class of Shares Held	% of Class Held	% Equity
First Debenture Finance PLC	'B' Shares	41.0	20.4
Fintrust Debenture PLC	Ordinary	35.3	35.3

In the opinion of the Directors, the Company is not in a position to exert significant influence over the above companies. The aggregate share capital, reserves and results of these companies are immaterial and they have been accounted for as investments at nil value.

## 8. Current Assets and Creditors

	1994 (2)	1993 (2)
	£	£
<b>Debtors</b>		
Sales for future settlement	2,647,150	828,338
Accrued income	1,469,467	1,033,174
Other debtors	30,924	93,343
Taxation recoverable	680,790	227,532
	<u>£4,828,331</u>	<u>£2,182,387</u>
<b>Cash at bank—</b>		
Deposit account	20,998,000	17,110,000
Current account	26,481	59,254
	<u>£21,024,481</u>	<u>£17,169,254</u>
<b>Creditors</b>		
Amounts falling due within one year—		
Purchases for future settlement	2,852,487	1,990,908
Other creditors	1,202,619	542,967
Short term loan	723,136	836,007
Bank overdraft	57,953	—
Interest on 4% Perpetual Debenture Stock	13,750	13,750
Dividend on Preference Stock	21,498	21,498
Dividend on Ordinary Shares paid 20th February 1994	2,915,991	2,711,360
Dividend on Ordinary Shares (proposed)	2,915,991	2,711,360
	<u>£10,703,425</u>	<u>£8,827,850</u>
Amounts falling due after more than one year—		
4% Perpetual Debenture Stock	1,375,000	1,375,000
Fixed Rate Interest Loan	29,859,385	—
Stepped Rate Interest Loan	31,567,202	30,500,664
	<u>£62,801,587</u>	<u>£31,875,664</u>

The short term loan is interest free and is repayable on demand.

The 4% Perpetual Debenture Stock is secured by a floating charge on the assets of the Company.

The Stepped Rate Interest Loan comprises adjustable Stepped Rate Interest Loan Notes of £5,133,520 and Stepped Rate Interest Bonds of £20,534,079 issued at 9.4% and repayable at a premium of £8,366,513. Interest is payable on the Bonds in July and January at an initial rate of 7.16% per annum increasing annually by 7.5% compound until January 1998, thereafter it is at 14.75% per annum until maturity on 2nd January 2018. Interest on the Loan Notes is variable by the lender in accordance with the terms of the agreement. The accounting treatment adopted in respect of the stepped rate interest and redemption premium is set out in the Statement of Accounting Policies.

The Fixed Rate Interest Loan was taken out during the year to raise additional funds for investment. This loan has been stated at net proceeds being the principal amount of £30,000,000 less issue costs of £141,053 plus accrued finance costs. The loan carries interest at the rate of 9.25125% per annum on the principal amount payable in arrears by equal half yearly instalments on 20th May and 20th November in each year. The Company has granted a floating charge over all its undertakings, property and assets in favour of the lender, Fintrust Debenture PLC. This charge ranks *pari passu* with the floating charges created by the Company to secure its obligations in relation to the 11.125% Severally Guaranteed Debenture Stock 2008 of First Debenture Finance PLC (Note 6) and in relation to the 4% Perpetual Debenture Stock.

**9. Investment in Subsidiary**

Surrey Investments Inc is a wholly owned subsidiary registered in the State of Delaware, U.S.A. with an issued share capital of US\$300,000. It was formed to act as a Limited Partner in IW O'Connor Associates LP and a shareholder in IW O'Connor & Co Inc., both of which are engaged in property development in the US. It has no other assets or investments. There were no balances outstanding between the Company and Surrey Investments Inc at 31st January 1994 nor have there been any transactions between them during the year ended at that date.

In the opinion of the Directors it would be of no real value to the members of the Company to produce consolidated accounts in view of the immaterial amounts involved.

**10. Share Capital**

	1994 (£)	1993 (£)
<b>Authorised</b>		
1,178,000 3.65%		
Cumulative Preference Stock	1,178,000	1,178,000
107,431,248 Ordinary Shares of 25p	26,857,812	25,822,000
	<u>£28,035,812</u>	<u>£27,000,000</u>
<b>Allotted and fully paid</b>		
1,178,000 3.65%		
Cumulative Preference Stock	1,178,000	1,178,000
102,315,478 Ordinary Shares of 25p	25,578,869	25,578,869
	<u>£26,756,869</u>	<u>£26,756,869</u>

The authorised capital was increased by £1,035,812 to £28,035,812 on 10th May 1993 at the Extraordinary General Meeting of the Company.

**11. Revenue Reserve**

	1994 (£)	1993 (£)
Balance at 1st February as previously reported	5,185,791	5,019,490
Prior year adjustment (Note 19)	2,028,435	2,607,192
Restated balance at 1st February	<u>7,214,226</u>	<u>7,626,682</u>
Revenue retained (transferred) for the year	42,032	(412,456)
Balance at 31st January	<u>£7,256,258</u>	<u>£7,214,226</u>

**12. Share Premium Account**

	1994 (£)	1993 (£)
Share Premium Account—		
Balance at 31st January	<u>£8,183</u>	<u>£8,183</u>

13. Capital Reserves

	1994 (£)	1994 (£)	1993 (£) (restated)
<b>Realised</b>			
Balance at 1st February, as previously reported		151,399,398	153,697,347
Prior year adjustment (Note 19)		(16,016,771)	(471,661)
Restated balance at 1st February		135,382,627	153,225,686
Net gains and losses on realisation of investments		9,038,856	1,880,188
Exchange gains on foreign currency transactions		23,944	3,134
Finance costs of borrowings—			
Stepped Rate Interest Loan	(1,558,761)		(1,587,002)
Fixed Rate Interest Loan	(884,592)		—
4% Perpetual Debenture Stock	(27,500)		(27,500)
	(2,550,853)		(1,614,502)
Taxation relief thereon	359,429		269,825
		(2,191,424)	(1,345,677)
Balance at 31st January		£160,634,707	£153,763,331
<b>Unrealised</b>			
Invested funds at 31st January			
At valuation		358,779,725	263,683,394
At book value (cost less amounts written off)		(242,308,217)	(209,094,482)
Balance at 31st January		£116,471,508	£54,588,912

14. Reconciliation of Movements in Shareholders' Funds

	1994 (£)	1994 (£)	1993 (£) (restated)
<b>Distributable profits</b>			
Revenue profit available for distribution	11,379,731		10,475,981
Dividends	(11,297,699)		(10,888,437)
Transfer to (from) distributable reserves		42,032	(412,456)
<b>Non-distributable profits</b>			
Recognised capital gains and losses transferred to non-distributable reserves		68,753,972	21,122,549
Net increase in Shareholders' Funds		68,796,004	20,710,093
Opening Shareholders' Funds (originally £240,939,153 before adding prior year adjustment of £1,392,368)		242,331,521	221,621,428
Closing Shareholders' Funds		£311,127,525	£242,331,521

**15. Reconciliation of Revenue before Taxation to  
Net Cash Inflow from Operating Activities**

	1994 (£)	1993 (£)
Revenue before taxation	13,861,427	14,214,850
Add: Finance costs of borrowings	2,550,853	1,614,567
Less: Tax credits on franked investment income	(2,535,999)	(3,556,072)
Less: Overseas tax suffered	(298)	(2,428)
Less: UK income tax suffered	(757,131)	(240,918)
Add: UK income tax deducted	600,081	279,116
Add: Exchange gains on foreign currency transactions	23,944	3,134
	<u>13,742,877</u>	<u>12,312,249</u>
(Increase) Decrease in debtors	(373,874)	563,039
Increase in creditors	78,150	21,599
Net cash inflow from operating activities	<u>£13,447,153</u>	<u>£12,886,867</u>

**16. Analysis of Changes in Cash and Cash Equivalents**

	1994 (£)	1993 (£)
Cash at bank at 1st February	16,333,247	12,865,040
Net cash inflow	3,910,145	3,468,207
Cash at bank at 31st January	<u>£20,243,392</u>	<u>£16,333,247</u>

**17. Analysis of Cash and Cash Equivalents as shown in the Balance Sheet**

	1994 (£)	1993 (£)
Cash at bank	21,024,481	17,169,254
Bank overdraft	(57,953)	—
Short term loan	(723,136)	(836,007)
	<u>£20,243,392</u>	<u>£16,333,247</u>

**18. Analysis of Changes in Financing during the Year**

	1994 (£)	1993 (£)
Financing at 1st February	31,875,664	30,759,218
Cash inflow from financing	29,858,947	—
Increase in accrued finance costs	1,066,976	1,116,446
Financing at 31st January	<u>£62,801,587</u>	<u>£31,875,664</u>

**Long Term  
Borrowings**

## 19. Prior Year Adjustments

The prior year adjustments to the Revenue Reserve and Capital Reserves relate to changes in accounting policy for i) the basis of charging finance costs of long term borrowings and ii) the basis of recognising income from securities and have been explained within accounting policy notes (vii) and (ii) respectively as set out on page 16. The prior year adjustments at 1st February 1992 and 1993 comprise the following:

	1994 (£)	1991 (£)	1993 (£)
<b>Revenue Reserve—</b>			
Finance costs of long term borrowings	1,238,747		1,007,952
Income from securities	789,688		1,599,240
		2,028,435	2,607,192
<b>Capital Reserves—</b>			
Finance costs of long term borrowings	(870,393)		(466,742)
Income from securities	234,326		15,081
		(636,067)	(471,661)
Increase to reserves as at 1st February		£1,392,368	£2,135,531

The effect of adopting these changes in accounting policy on the results for the year ended 31st January 1994 has been to increase the revenue after taxation by £1,281,808 (1993 - decrease by £578,757) and decrease total capital gains and losses by £1,023,435 (1993 - £164,406).

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the revenue of the Company for that period. In preparing those financial statements, the directors are required to:--

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## CORPORATE GOVERNANCE

The Board has considered the Report on the Financial Aspects of Corporate Governance and fully supports the recommendations in the Code of Best Practice and the Association of Investment Trust Companies Guidelines. The Company complies with all of the provisions of the Cadbury Committee's Code of Best Practice, other than those items (namely going concern and internal control), for which guidance is awaited. The Company's auditors, Price Waterhouse, have reviewed our compliance with the specific matters in the Code which The London Stock Exchange requires that the auditors should review. They have reported to the Board that they are of the opinion that it is appropriate for the directors to make the statement that the Company complies with those aspects of the Code.

The Board is currently composed of six non-executive directors, the majority of whom are independent of the Managers, Kleinwort Benson Investment Management Limited (KBIM). They meet regularly and are responsible for policy and strategic matters. They have been appointed for a specified term and reappointment will not be automatic.

An Audit Committee has been formally appointed and all the independent directors serve on it. Its Chairman is Mr D. H. L. Hopkinson. It reviews the financial accounts, accounting policies and practices and compliance with regulatory and financial reporting requirements. The Audit Committee also reviews the terms of the Management Agreement between the Company and KBIM and the management fee and considers the effectiveness of the internal controls.

## AUDITORS' REPORT

**To the Shareholders of The Merchants Trust PLC**

We have audited the financial statements on pages 12 to 24 which have been prepared under the historical cost convention as modified by the revaluation of fixed asset investments and the accounting policies set out on page 16.

**Respective Responsibilities of Directors and Auditors**

As described on page 25 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of Opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion, the financial statements give a true and fair view of the state of the Company's affairs at 31st January 1994 and of its net revenue, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse  
Chartered Accountants and  
Registered Auditors

London

30th March 1994

# DIRECTORS' REPORT

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## Status

The Company operates as an approved investment trust within the meaning of Section 842 of the Income and Corporation Taxes Act 1988, confirmation of which has been received from the Inland Revenue for the year ended 31st January 1993. Such approval is expected to be granted for the accounting year now under review. The Company is not a close company. The Company is an investment company within the meaning of Part VIII of the Companies Act 1985.

## Share Capital

On 10th May 1993, at the Extraordinary General Meeting of the Company, the authorised capital was increased by £1,035,812 to £28,035,812. There were no changes in the issued share capital during the year.

## Invested Funds

Sales of investments during the year resulted in net gains of £9,038,856 (1993 - £1,880,188). Provisions contained in the Finance Act 1980 exempt approved investment trusts from corporation tax on their chargeable gains. Invested funds at 31st January 1994 had a value of £358,779,725 before deducting net liabilities of £47,652,200 (1993 - £263,683,394 and £21,351,873 restated).

## Net Asset Value

The net asset value of the Ordinary Shares of 25p at the year end, after deducting the provision for final dividend, was 302.9p as compared with a value of 235.7p restated at 31st January 1993.

## Donations and Subscriptions

Charitable donations in respect of the year aggregated £700. In addition the Company donated £360 to the English Speaking Union.

## Historical Record

There is included in the Investment Managers' Review a schedule of the thirty largest equity interests. The distribution of invested funds is shown on page 10, and the historical record of the Company's revenue, capital and invested funds over the past ten years is shown on page 4. Graphs are included on page 11 showing the performance on a total return basis over the past five years of the net asset value of the Company's Ordinary Shares against the FTSE 100 Index and building society deposits and the growth in distributions made by the Company against the Retail Price Index over the same period.

## Personal Equity Plan

Since 6th April 1990, the affairs of the Company have been conducted in such a way as to meet the 50 per cent. EC equity content requirement of a qualifying investment trust for Personal Equity Plans and it is the intention to continue to meet this requirement.

**Business Review**

A review of the Company's activities is given in the Chairman's Statement on pages 2 and 3 and in the Investment Managers' Review on pages 6 to 9.

**Investment Revenue**

Revenue for the year after deducting management and general expenses amounted to	13,861,427
Taxation absorbed	(2,521,696)
and there remained a balance of	11,339,731
from which has been deducted the dividend on £1,178,000 Preference Stock	(42,997)
leaving available for distribution to Ordinary Shareholders	11,296,734

**Dividends**

Provision has been made in the Accounts for dividends announced on 102,315,478 Ordinary Shares of 25p as follows:

1st Interim 2.65p per Share paid 27th August 1993	2,711,360
2nd Interim 2.65p per Share paid 19th Nov 1993	2,711,360
3rd Interim 2.85p per Share paid 25th Feb 1994	2,915,991
Final 2.85p per Share proposed	2,915,991
	(11,254,702)
leaving a balance to be added to Revenue Reserve of	£42,032

Subject to the final dividend being approved payment will be made on 20th May 1994 to Shareholders on the Register of Members at the close of business on 21st April 1994 at the rate of 2.85p per share. This dividend together with the three interim dividends paid and their related tax credits is equivalent to 55 per cent. gross on the nominal value of an ordinary share. This compares with total gross dividends of 55.6 per cent. paid last year.

**Substantial Shareholdings**

In accordance with section 198 Companies Act 1985 and the Disclosure of Interests in Shares (Amendment) Regulations 1993 the Company has been advised of the following substantial share interests in its relevant share capital:-

**3.65% Preference Stock:—**

Provincial Insurance PLC—£179,325 (15.2%); The Prudential Corporation PLC—£176,000 (14.9%); Ecclesiastical Insurance Office PLC—£134,690 (11.4%); Eagle Star Holdings PLC—£90,000 (7.6%); Royal Insurance PLC—£60,000 (5.1%).

**Ordinary Shares of 25p:—**

AMP Asset Management PLC (including Pearl Assurance plc)—7,996,666 (7.8%).

**Directors and Management**

The Director retiring by rotation is Sir Anthony Tuke who has decided that he will retire from the Board at the forthcoming Annual General Meeting after twenty-five years service as a Director. Sir Thomas Risk has also decided that he will retire from the Board at the Annual General meeting after twenty-one years service as a Director. Mr. B. C. R. Siddons was appointed alternate director to Mr. C. H. Black on 13th September 1993. Mr. R. A. Henderson retired from the Board on 10th May 1993 after eight years service as Chairman.

The present Board and their interests in the share capital of the Company as at 31st January are listed below:

	Ordinary Shares of 25p			
	1994		1993	
	Beneficial	As Trustee	Beneficial	As Trustee
C. H. Black	1,000	—	1,000	—
Sir John Banham	400	—	400	—
Sir Derek Birkin	400	—	400	—
D. H. L. Hopkinson	12,659	—	12,390	—
Sir Thomas Risk	2,000	—	2,000	—
Sir Anthony Tuke	25,000	—	25,000	—

On 3rd March 1994 Mr. D. H. L. Hopkinson acquired a further 31 Ordinary Shares through the Personal Equity Plan. Mr B. C. R. Siddons, alternate director to Mr C. H. Black, has no holdings in any securities of the Company.

No contracts of significance in which Directors are deemed to have been interested have subsisted during the year under review. Mr. C. H. Black is non-executive Chairman and Mr B. C. R. Siddons is a director of Kleinwort Benson Investment Management Limited, which provides all investment management and administrative services.

#### Allotment of New Shares

Resolutions were passed at the Extraordinary General Meeting held on 10th May 1993 to authorise the Directors to allot the unissued share capital. The Directors were also authorised to allot new shares for cash to the Kleinwort Benson Investment Trust Savings Scheme and Personal Equity Plan when the lowest market offer price of the Ordinary Shares was at a premium to net asset value (including undistributed income) of not less than 5 per cent. At the date of this report no Ordinary Shares of 25p had been allotted as for most of the year the requisite level of premium had not been reached. The Directors now propose that no minimum level of premium should be set in the coming year.

The resolution empowering the Directors to allot new shares for cash must be renewed annually and accordingly a special resolution is to be proposed at the forthcoming Annual General Meeting for this purpose. This power is limited to an aggregate nominal amount of £1,278,943 ordinary capital or 5,115,772 Ordinary Shares of 25p each (being 5 per cent. of the issued ordinary capital at 31st January 1994) and expires at the conclusion of the Annual General Meeting in 1995. Subject to this resolution being passed, the Directors confirm that it is not their intention to allot new shares to the Savings Scheme or the Personal Equity Plan unless the lowest market offer price of the Ordinary Shares is at least at a premium to net asset value (including undistributed income).

#### ANALYSIS OF SHARE REGISTER

Shareholder type	No. of Accounts		%		Ordinary Shareholding (000s)		%	
	1994	1993	1994	1993	1994	1993	1994	1993
Private holders*	11,325	9,072	75.7	76.2	40,364	41,543	39.5	40.6
Nominees	2,566	2,011	17.2	16.9	45,538	42,122	44.5	41.2
Assurance Companies	125	112	0.8	0.9	5,264	7,022	5.1	6.9
Other holders	312	245	2.1	2.1	5,093	6,184	5.0	6.0
Pension Funds	9	13	0.1	0.1	313	398	0.3	0.4
Investment Trusts/ Funds	617	448	4.1	3.8	5,743	5,046	5.6	4.9
	<u>14,954</u>	<u>11,901</u>	<u>100.0</u>	<u>100.0</u>	<u>102,315</u>	<u>102,315</u>	<u>100.0</u>	<u>100.0</u>

\* Including PEP Nominees and Saving Scheme Nominee.

Based on an analysis of the Ordinary Share register at 15th February 1994 (16th February 1993).

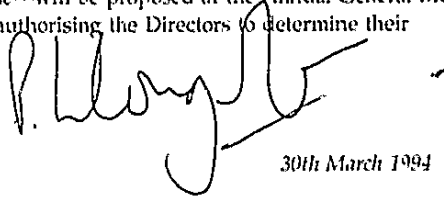
**Directors' and Officers' Liability Insurance**

The Company took out Directors' and Officers' liability insurance during the year

**Auditors**

In accordance with the Companies Act 1985 a resolution to re-appoint the Auditors—Price Waterhouse—will be proposed at the Annual General Meeting, together with a resolution authorising the Directors to determine their remuneration.

By Order of the Board  
P. L. Longcroft  
*Secretary*



30th March 1994

## NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of The Merchants Trust PLC will be held at 10 Fenchurch Street, London, EC3M 3LB, on Monday, 9th May 1994 at 12.30 p.m. to transact the following business—

### Routine Business

- 1 To receive and adopt the Report of the Directors and the Accounts for the year ended 31st January 1994 together with the Auditors' Report thereon.
- 2 To declare a final dividend of 2.85p per ordinary share.
- 3 To re-appoint the Auditors and authorise the Directors to determine their remuneration.

### Special Business

The following resolution will be proposed as a Special Resolution:-

THAT the Directors be empowered in accordance with Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of that Act) for cash as if sub-section (1) of Section 89 of the Act did not apply to any such allotment provided that:-

- (i) the power granted shall be limited to the allotment of equity securities wholly for cash up to an aggregate nominal amount of £1,278,943 (being 5 per cent. of the issued ordinary share capital at 31st January 1994);
- (ii) the power granted shall (unless previously revoked or renewed) expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution; and
- (iii) the said power shall allow and enable the Directors to make an offer or agreement before the expiry of that power which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if that power had not expired.

10 Fenchurch Street,  
London EC3M 3LB  
15th April 1994

By Order of the Board  
P. L. Longcroft  
Secy

**Notes:** A Member entitled to attend and vote at this Meeting may appoint one or more proxies to attend and, on a poll, vote in his stead. The proxy need not be a member of the Company. Proxies must reach the office of the Registrars at least forty-eight hours before the Meeting.

A form of proxy is provided with the Annual Report. Completion of the form of Proxy will not prevent a Member from attending the Meeting and voting in person.

Contracts of service are not entered into with the Directors, who hold office in accordance with the Articles of Association and Letters of Appointment.