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 Years ended 31st January

Revenue	1997	1996	% change
Gross Revenue	£22,384,498	£20,481,697†	+9.3
Available for Ordinary Dividend	£13,978,753	£12,698,215†	+10.1
Earnings per Ordinary Share	13.66p	12.41p†	+10.1
Dividend per Ordinary Share	13.65p*	12.25p	+11.4
Assets			
Total Net Assets	£335,211,549	£303,934,220†	+10.3
Net Asset Value per Ordinary Share	326.4p	295.9p†	+10.3

* Including foreign income dividend of 2.00p.
† Restated to reflect the adoption of the Statement of Recommended Practice for the financial statements of investment trust companies.
Investments are valued on the basis set out in the Statement of Accounting Policies on page 13.

Financial Calendar

Results
Half-year announced mid-September.
Full-year announced mid-March.
Report and Accounts posted to Shareholders mid-April.
Annual General Meeting held mid-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.

Interest on 4% Perpetual Debenture Stock
Payable half-yearly 1st May and 1st November.

Savings Plan
Through the Kleinwort Benson Investment Trusts Savings Plan, Shareholders are able to put additional investments 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.

Personal Equity Plan
Shareholders can invest in the Ordinary Shares of the Trust through the Kleinwort Benson Investment Trusts Personal Equity Plan.

Full details of both plans are available from the Kleinwort Benson Investment Trust Helpline on 0171-956 5832.

CHAIRMAN'S STATEMENT

Results

The results for the year ended 31 January 1997 show net earnings per Ordinary Share of 13.66p, which compare with the restated 12.41p, recorded in 1995/6. These latest accounts reflect the adoption of the Statement of Recommended Practice (SORP) for Investment Trusts, as anticipated in the 1995/6 Report. During the past financial year the Trust received special dividends totalling £1.44m before tax, representing 1.13p net per share. If the benefit of these special dividends is excluded the Trust has recorded further progress in underlying earnings.

The Board is recommending a Final Dividend of 3.90p net per share, of which 2.00p will be in the form of a Foreign Income Dividend (FID), giving a total of 13.65p for the 1996/7 financial year. This total compares with the 12.25p paid for 1995/6 and represents an increase of 11.4%.

If it were not for the FID payment, the Directors would have recommended a lower final dividend of 3.50p per ordinary share, making a total 'normal' distribution for the year of 13.25p, an increase of 8.2%.

The declaration of a FID will reduce the level of future irrecoverable advance corporation tax (ACT) write-off within the Company. The Board anticipates this ACT write-off will arise as a result of the increased level of distributions resulting from taking certain expenses to capital. This ACT saving is passed on entirely to shareholders by way of an increased ordinary dividend. The enhancement to the ordinary dividend ensures that no shareholder will be adversely affected in declaring the FID. Taxpaying shareholders receive an additional 0.4p net per share and returns to non-taxpayers are unaffected. The FID payment effectively passes on to shareholders the aggregate of all FIDs received to date by the Company from its investments. Provided that FIDs continue to be received by the Company and assuming no changes to tax legislation, the Board will accordingly pay part of future dividends in the form of a FID.

Shareholders will be pleased to note that, as shown in the AITC Monthly information service performance statistics for January 1997, the Trust enjoys not only a significant dividend yield premium over the average of the UK Income Growth peer group but also has a better than average dividend growth record over the last five years.

Although the sterling exchange rate rose sharply in the second half of the Trust's year, it has had little adverse impact on company results reported so far for 1996. With balance sheets and cashflows still showing positive trends, dividend payments have continued to grow significantly in real terms. It remains the case that some companies are finding the current low inflation climate somewhat testing and their more restrained dividend growth potential has inhibited their share price performances. This prospect prompted the switch of approximately 10% of the portfolio into the gilt-edged market at the end of the first half of the 1996/7 financial year.

Capital values grew well in the second half of the year, after a steady first six months. Investors became increasingly confident that relatively low inflation rates were sustainable for the foreseeable future and the resulting appreciation in world bond markets helped support higher equity values. Consequently the Trust's net asset value per share rose from 295.9p (restated) to 326.4p or by 10.3% over the full year. Thus the total return for shareholders, including the total of net dividends, was 14.9%.

As in 1995/6, there has been a disparity between the performance of higher yielding shares and the market in general. This can be seen by comparing on the same basis as above the total return of 13.6% from the FTSE Higher Yield Index, with the total return of 17.0% recorded by the FTSE 100 Index. Most of this disparity was seen in the first half of the Trust's financial year and, more recently, there have been signs of a more consistent performance from higher yielding shares.

Shareholders will have observed that in common with other investment trusts the discount to net asset value, at which The Merchants Trust shares are quoted, has widened during the last financial year. As a result, although the Trust's underlying assets have recorded useful progress, the quoted price of the Trust's shares has hardly changed. I believe that a period of consolidation within the investment trust sector may be required before discounts narrow significantly once again.

Prospects

Any analysis of the outlook for the stock market in 1997 has to look at two crucial issues. Firstly there is the question of whether the current climate of steady growth and low inflation is sustainable in the UK. Although some commentators have expressed fears of over-heating and a return to conditions seen in the late eighties, this scenario is looking increasingly unlikely. It is now five years since the end of the recession and inflationary pressures remain somewhat muted in both the UK and overseas. This gives your Board and the Managers confidence that UK security values are sustainable at current levels despite their re-rating in recent years. Indeed there is now a widespread view that although short term interest rates may rise later in 1997, they are unlikely to rise to the levels seen in previous cycles.

The other important issue is the forthcoming General Election and its impact on investor confidence in the short to medium term. At present it seems highly likely that there will be a change of Government for the first time in nearly eighteen years. Although it can be argued that the Labour Party's indicated policies may well be more supportive of the UK corporate sector than in the past, there is clearly the possibility of market volatility in the coming months. In this light the managers have taken steps to minimise this risk in terms of the distribution of the portfolio.

I commented in last year's Annual Report that the health of the corporate sector led us to be confident of a robust trend in dividend payments from the portfolio.
I am happy to say that our perception of 1997 is that these prospects remain good. Furthermore, the surplus of capital within UK companies has meant that share buy-backs and special dividends have become a recurring feature of the corporate scene. In this light, and with the Trust's strong revenue reserve in mind, your Board is confident of further progress in the Trust's dividend distributions.

C. H. Black
Chairman

3rd April 1997

Historical Record

Years ended 31st January

Revenue and Capital

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Gross Revenue (£000's)	9,930	12,342	15,334	17,230	18,104	17,119†*	18,050	20,572	20,481◊	22,384
Earnings per Share (net)	5·40p†	7·13p†	9·09p†	10·46p†	10·92p†	10·20p†*	11·04p	12·12p	12.41p◊	13.66p
Paid net per Share	5·40p	6·60p	8·00p	9·00p	10·00p	10·60p	11·00p	11·50p	12.25p	13.65pø
Tax Credit per Share	1·89p	2·20p	2·67p	3·00p	3·30p	3·31p	2·75p	2·88p	3.06p	3.41p#
Gross Ordinary Dividend	7·29p	8·80p	10·67p	12·00p	13·30p	13·91p	13·75p	14·38p	15.31p	17.06p
Total Net Assets (£000's)	176,269†	211,991†	231,322†	197,514†	220,007†	242,331†*	311,127	253,604	303,934◊	335,212
Net Assets attributable to Ordinary Capital (£000's)	175,091†	210,813†	230,144†	196,336†	218,829†	241,153†*	309,949	252,426	302,756◊	334,034
Net Asset Value per Ordinary Share	171·1p†	206·1p†	225·0p†	191·9p†	213·9p†	235·7p†*	302·9p	246·7p	295.9p◊	326.4p
NAV Total return (%) X	+2.1	+24.3	+13.1	-10.7	+16.7	+15.1	+33.2	-14.8	+24.9	+14.9
Retail Price Index increase (%)	+3.3	+7.5	+7.7	+9.0	+4.1	+1.7	+2.5	+3.3	+2.9	+2.8

Notes

† Restated to reflect the change in accounting policy during the year ended 31st January 1994 for finance costs of long term borrowings.

* Restated to reflect the change in accounting policy during the year ended 31st January 1994 for dividends and interest receivable on investments. The gross revenue, earnings per share and net asset value figures for years 1988 to 1992 have not been restated in respect of this change for reasons of practicality.

◊ Restated to reflect the adoption of the Statement of Recommended Practice for the financial statements of Investment Trust Companies.

X NAV total return reflects both the change in net asset value per ordinary share and the net ordinary dividends declared in respect of each year.

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 1997 were 279p–284p.

ø Including a Foreign Income Dividend of 2.00p.

Inclusive of 0.50p income tax credit on Foreign Income Dividend which is notional and not repayable.

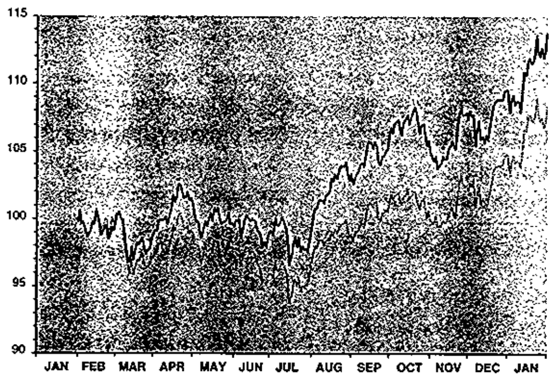
Geographical Disposition of Invested Funds

Percentage of Valuation										
United Kingdom	86·8	90·6	91·5	95·7	98·8	99·1	99·5	99·5	99.6	99·6
North America	11·9	9·1	8·5	4·3	1·2	0·9	0·5	0·5	0.4	0·4
Other Countries	1·3	0·3	—	—	—	—	—	—	—	—
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Economic Background

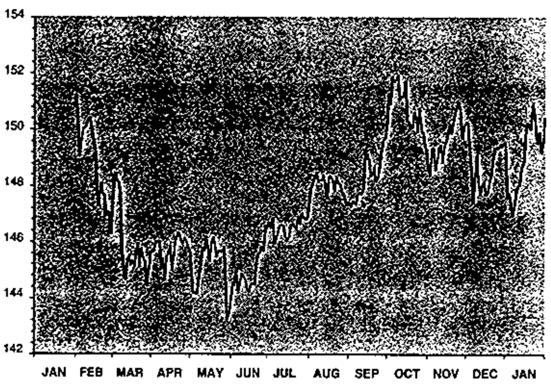
Although investors' nerves have been tested at various times during the last financial year, the benign nature of the economic background has shown little change. UK growth continued at about the 2.5% level, but many forecasters had predicted a material pick-up in both inflation and interest rates by the end of 1996. These fears proved to be misplaced as in previous years. Although the US recorded good progress, European economies remained relatively becalmed with growth forecasts downgraded as the year progressed. This led to doubts over the practicality of Economic Monetary Union (EMU) in 1999. Increasingly the foreign exchanges became convinced that UK interest rates would rise relative to those elsewhere in Europe and consequently sterling rose by over 10% on a trade-weighted basis. With an estimated 50% of UK corporate profits being derived from overseas, this trend was clearly unhelpful for profit forecasts. Nevertheless it helped stabilise retail price inflation at low historic levels, reinforcing confidence in security values.

FTSE 100 - Price Index ———
FTSE Actuaries 350 Higher Yield - Price Index ....



1996 1997
Source Datastream

FTA British Government
5 to 15 yrs - Price Index



1996 1997
Source Datastream

Although profits failed to match earlier expectations, company balance sheets were strengthened further as profit margins rose to post-war highs. Thus dividend growth was sustained at nearly 10%, marking the fourth year of significant real growth. In addition there ceased to be any stigma attached to distributions to shareholders either through special dividends or share buy-backs. This gives confidence that real dividend growth is sustainable in 1997, despite the likelihood of some de-celeration in profits growth.

Market trends

In the first half of the 1996/7 financial year, UK equity values were little changed. Growth trends, particularly in the US, led investors to discount a rise in short term interest rates later in 1996 as a pre-emptive strike against inflation. In parallel, yields on long gilts rose as inflation fears were fuelled by the view that, after four years of recovery, cost-push inflation would reappear. These concerns reached a crescendo in the US in July of last year when the S&P Composite Index fell by nearly 5%, causing shockwaves in most world markets.

From this point onwards, markets in the UK took comfort from two factors. Firstly the more sluggish trends in the US economy, coupled with strong investor cashflows, led Wall Street sharply upwards. Indeed over the second half of the Trust's year, the S&P Composite Index rose by nearly 23%, despite the Chairman of the Federal Reserve warning of 'irrational exuberance' towards the end of 1996. Secondly the strength of sterling confirmed the view that markets had been too bearish in their UK inflation forecasts looking through to 1997. This led to a useful revaluation within the gilt-edged market, and a corresponding sharp uplift in equity values. Confidence was not upset by the 0.25% increase in base rates to 6% at the end of October. The technical position in the UK was also conducive to an appreciation in values in that rights issue activity was quiet and buy-backs and special dividends led to significant sums being returned to investors. As in 1995/6, the higher yielding sectors of the market did not participate fully in this market strength due to fears regarding the growth in their dividends.

Portfolio changes

The most significant change within the portfolio over the last year was the switch of £28m from equities into the gilt-edged market. Most of this change was effected in July, as reported in the 1996/7 Interim Report. A further £5m of gilts were purchased in October, resulting in the year end weighting in fixed interest being nearly 11% of the portfolio. It should be emphasised that this does not represent a strategic shift in asset allocation,

Thirty Largest Holdings
at 31st January 1997

	Valuation £000's	%	Unrealised Gain(Loss) over Book Cost £000's
Shell Transport	22,575	5.74	12,859
Glaxo Wellcome	18,990	4.82	4,871
Barclays	18,632	4.73	7,686
British Telecommunications	17,527	4.45	4,349
Prudential	13,487	3.43	8,855
National Westminster	13,115	3.33	4,940
Conversion 9.5% stock 2005	12,868	3.27	171
Boots	11,097	2.82	3,150
Commercial Union	10,462	2.66	1,894
Safeway	10,322	2.62	1,722
Lloyds TSB	9,370	2.38	5,183
Imperial Tobacco	9,028	2.29	(529)
General Electric	8,970	2.28	2,396
RTZ	8,963	2.28	(625)
Burmah Castrol	8,541	2.17	546
Treasury 7.75% stock 2006	8,180	2.08	296
Great Universal Stores	8,106	2.06	3,754
Unigate	7,613	1.93	1,896
Treasury 8.5% loan 2007	7,531	1.91	275
Scottish Hydro-Electric	7,528	1.91	152
Conversion 9% loan 2011	7,523	1.91	133
Bass	7,195	1.83	1,302
Legal & General	6,966	1.77	4,145
Hillsdown	6,845	1.74	359
MEPC	6,742	1.71	710
Grand Metropolitan	6,619	1.68	884
Rank	6,402	1.63	110
Thames Water	5,420	1.38	881
Zeneca	5,143	1.31	3,474
Treasury 9% loan 2008	5,022	1.28	[illegible]
		75.40	

rather a tactical change to exploit the over-cautious level of gilt-edged yields taking account of the inflation outlook. Further the initial purchases were funded through sales of a number of equities whose prospects gave rise to concern. These included BTR, Booker, Dalgety, English China Clays and Hepworth.

The diminishing growth prospects in mainland Europe, coupled with the strong sterling rate, led the Managers to take a cautious line on those companies with a high level of dependence on this area. The most noteworthy sales in this respect were those of ICI and British Steel, both of whose major products are traded in Deutschmarks and whose costs are largely sterling based. The Trust's long-standing holding of GKN was also sold, realising a substantial profit, as the valuation appeared to reflect fully the trading prospects.

Amongst other significant disposals during the last year was that of the Granada 7.5% convertible, which had risen sharply following the Group's successful take-over of the Forte Hotel group. Lastly, the Managers took steps towards the year end to reduce the Trust's exposure to the utility sectors, through sales of both National Power and Powergen. £0.5m was realised through further sales from the Trust's unquoted US portfolio, which is now only 0.27% of invested funds.

United Kingdom Listed Equity Holdings

at 31st January 1997

	Value (£)	Principal Activity
Shell Transport	22,575,000	Oil and gas
Glaxo Wellcome	18,990,500	Pharmaceuticals
Barclays	18,632,000	Banking
British Telecommunications	17,527,500	Telecommunications
Prudential	13,487,500	Life and general insurance
National Westminster	13,115,500	Banking
Boots	11,096,875	Retailing
Commercial Union	10,462,500	Insurance
Safeway	10,321,850	Food retailing
Lloyds TSB	9,369,750	Banking
Imperial Tobacco	9,027,850	Tobacco
General Electric	8,970,000	Electronic equipment
RTZ	8,963,500	Mining
Burmah Castrol	8,540,700	Lubricants and chemicals
Great Universal Stores	8,106,250	Mail order and multiple retailer
Unigate	7,612,875	Food manufacturing
Scottish Hydro-Electric	7,528,500	Electricity
Bass	7,195,250	Brewing and hotels
Legal & General	6,966,000	Life and general insurance
Hillsdown	6,845,000	Food manufacturing
MEPC	6,742,250	Property
Grand Metropolitan	6,619,125	Spirits and food
Rank	6,402,000	Leisure
Thames Water	5,420,000	Water
Zeneca	5,142,825	Pharmaceuticals
Allied Domecq	4,939,250	Brewer, wines, spirits and food
Bank of Scotland	4,852,500	Banking
Abbey National	4,707,000	Banking
Enterprise Oil	4,702,525	Oil exploration and production
Somerfield	4,647,500	Food retailing
London and Manchester	4,643,975	Life and general insurance
Ocean Group	4,474,500	Freight and shipping
x United News & Media	4,252,141	Media conglomerate
† Blue Circle	4,219,425	Cement and building products
BOC	4,080,700	Industrial gases
Glynwed International	4,022,625	Engineering and building
IMI	3,869,650	Engineering
Ladbroke	3,664,000	Hotels, betting and property
Southern Electric	3,482,175	Electricity distribution
x Reckitt & Colman	3,318,000	Household goods
Rexam	3,280,000	Paper products
Williams	3,245,000	Industrial conglomerate
Hanson	3,228,750	Industrial conglomerate
Harrisons & Crosfield	2,946,125	Chemicals and building merchants
Kingfisher	2,778,650	Retailing
M & G	2,613,220	Fund management
Redland	2,390,500	Building materials
Thorn	2,031,750	Electrical rental
Great Portland Estates	2,021,000	Property
Coats Viyella	2,017,500	Textiles
* Kleinwort Benson UK Property Company	1,957,173	Property
x Sainsburys	1,754,438	Food retailing
Union	953,400	Financial services
	£350,749,572	89.12% of Total Invested Funds

† Consists of Convertible Preference Shares.
x Consists of Convertible Bonds.
* Quoted on the Amsterdam Stock Exchange.

United Kingdom Listed Fixed Interest Holdings
at 31st January 1997

	Valuation (£)	Description
Conversion 9.5% stock 2005	12,867,750	Gilt-edged stock
Treasury 7.75% stock 2006	8,180,000	Gilt-edged stock
Treasury 8.5% loan 2007	7,531,559	Gilt-edged stock
Conversion 9% loan 2011	7,522,840	Gilt-edged stock
Treasury 9% loan 2008	5,021,717	Gilt-edged stock
	£41,123,866	10.45% of Total Invested Funds

North America Unlisted Holdings
at 31st January 1997

	Valuation (£)	Principal Activity
Mezzanine Lending Associates	618,555	Leveraged buy-out fund
* J. W. O'Connor	210,429	US property
Harrow Industries	195,266	Furniture and hardware products
Transatlantic Ventures	69,069	Specialist technology fund
	£1,093,319	0.27% of Total Invested Funds

* Investment made through subsidiary company Surrey Investments Inc.

North America Listed Holdings
at 31st January 1997

	Valuation (£)	Principal Activity
Millennium Chemicals	620,590	Chemicals
	£620,590	0.16% of Total Invested Funds

As far as additions to the portfolio are concerned, the financial sector has seen the most significant increase in weightings. Chiefly this reflected additions to the bank sector, through purchases of Barclays, Abbey National and Bank of Scotland; the latter being instigated via a major placing of shares last July. There were also additions to holdings in the Life and Composite Insurance sectors. All these sectors have strong balance sheets, coupled with the prospect of good real growth in dividends.

Unusually the Trust reaped a material benefit from the Oil Exploration and Production sector through a series of purchases of Enterprise Oil. This gain was prompted by an unexpectedly high spot oil price for much of 1996, coupled with clearer evidence of the Group's future production profile. Indeed the revaluation was sufficiently marked by the end of 1996 for the Managers to consider it appropriate to crystallise some of these profits.

After a period of dull performance there were new investments in BOC and RTZ, both of which had been included in the Trust's portfolio in the past. These companies are well managed and offer solid streams of revenue and profit, which have yet to experience the full benefit from the expansion in the world economy. Finally although the new issue market was relatively quiet, the flotations of Imperial Group, through the Hanson de-merger, and Somerfield offered buying opportunities. Both these companies had high initial dividend yields, coupled with good recovery potential from depressed valuation levels.

Future policy

As the Chairman has indicated, there is a strong likelihood that the economic background will remain supportive of equity values, especially as gilt-edged stocks still offer substantial real yields. Nevertheless for many companies the climate is likely to remain testing as consumers remain very resistant to price increases in most major economies. This requires the Trust's management to remain vigilant in stock selection, despite the fact that 1997 is likely to represent the fifth year of economic recovery. Thus the emphasis will remain on those companies that are both willing and able to enhance their dividend distributions in real terms. Given that the portfolio's underlying earnings are well diversified internationally, it is well placed to withstand any financial squalls which may lie ahead.

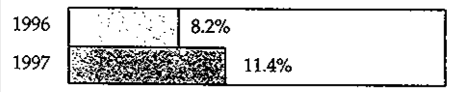
Distribution of Invested Funds

at 31st January 1997

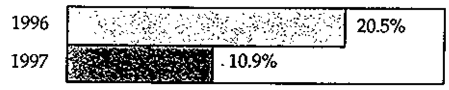
Invested Funds – £393,587,347 (1996 – £355,225,836)

Percentage of Valuation

Equities (including convertibles)	United Kingdom	North America	1997 Total	1996 Total
Mineral Extraction				
Extractive Industries	2.3	—	2.3	0.8
Oil, Integrated	7.9	—	7.9	6.8
Oil Exploration and Production	1.2	—	1.2	0.6
	11.4	—	11.4	8.2
General Manufacturers				
Building Materials	1.7	—	1.7	2.6
Chemicals	1·0	0.2	1·2	1·6
Diversified Industries	2.4	—	2.4	5.9
Electronic and Electrical Equipment	2·3	—	2·3	2·4
Engineering	2.0	—	2.0	5.0
Engineering, Vehicles	—	—	—	1.4
Paper, Packaging & Printing	0.8	—	0.8	1.1
Textiles and Apparel	0·5	—	0·5	0·5
	10.7	0.2	10.9	20.5
Consumer Goods/Business Services				
Breweries	1.8	—	1.8	2.6
Spirits, Wines and Ciders	2.9	—	2.9	3.5
Food Manufacture	3.7	—	3.7	5.3
Household Goods	0.8	—	0.8	0.9
Pharmaceuticals	6.1	—	6.1	5.8
Tobacco	2.3	—	2.3	4.2
	17.6	—	17.6	22.3
Services				
Leisure and Hotels	2.6	—	2.6	3.2
Media	1.1	—	1.1	—
Retailers, Food	4.2	—	4.2	2.7
Retailers, General	6.1	—	6.1	5.5
Transport	1.1	—	1.1	2.2
	15.1	—	15.1	13.6
Utilities				
Electricity	2.8	—	2.8	4.0
Gas Distribution	—	—	—	3.1
Telecommunications	4.5	—	4.5	3.5
Water	1·4	—	1.4	1.6
	8.7	—	8.7	12.2
Financials				
Banks	13.0	—	13.0	7.3
Insurance	2.7	—	2.7	1.9
Life Insurance	6.4	—	6.4	6.1
Merchant Banks	—	—	—	0.3
Other Financial	0.9	0·1	1.0	0.3
Property	2.7	0·1	2.8	3.8
	25.7	0·2	25.9	19.7
Total Equities	89.2	0.4	89.6	96.5
Fixed Interest				
Government Securities	10.4	—	10.4	3.5
Total Fixed Interest	10.4	—	10.4	3.5
Total	99·6	0·4	100·0	100·0

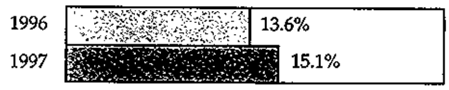


Mineral Extraction

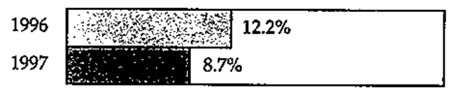


General Manufacturers

Consumer Goods/Business Services

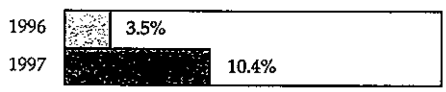


Services



Utilities

Financials

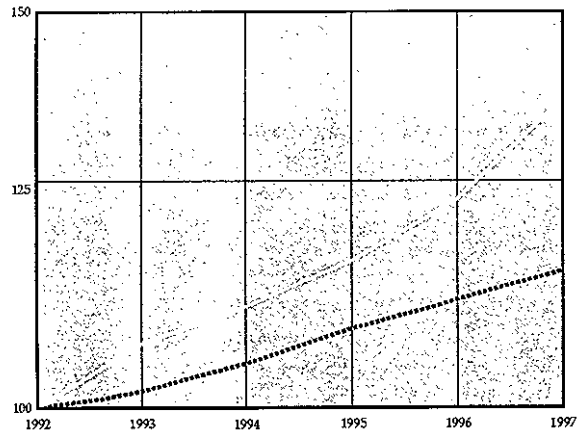


Fixed Interest

The above groupings are based on the FTSE Actuaries Share Indices

PERFORMANCE GRAPHS

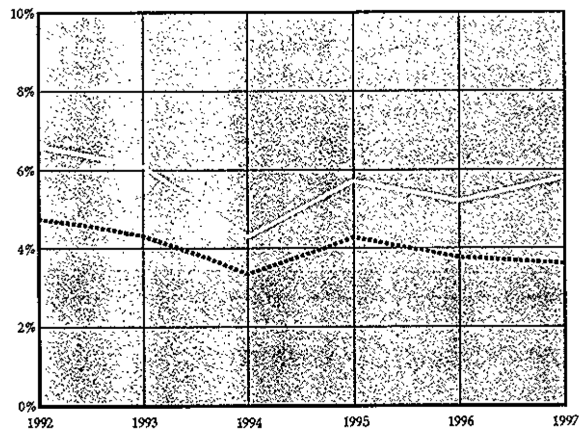
at 31st January 1997



The Merchants Trust PLC

5 year record - 31st January 1992 = 100

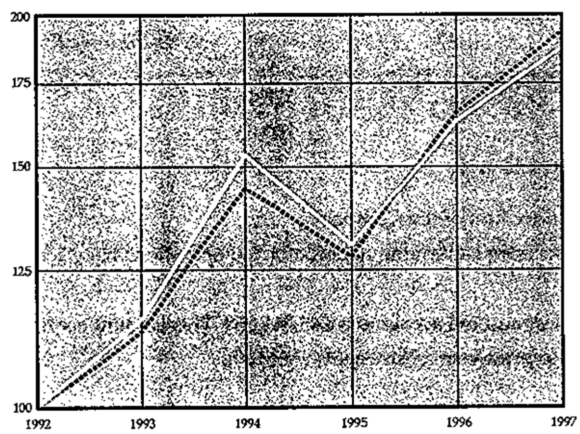
KEY
- Merchants Net Dividend
- Retail Price Index



The Merchants Trust PLC

5 year record

KEY
- Merchants gross ordinary yield
- FTSE 100 Index gross yield



The Merchants Trust PLC

5 year record - 31st January 1992 = 100

KEY
- Merchants NAV total return (net income re-invested)
- FTSE 100 Index total return (net income re-invested)

STATEMENT OF TOTAL RETURN*

for the year ended 31st January 1997

	1997(£) Revenue	1997(£) Capital	1997(£) Total	1996(£) (restated) (Note 20) Revenue	1996(£) (restated) (Note 20) Capital	1996(£) (restated) (Note 20) Total
Net gains on investments *(Note 8)*	—	34,618,466	34,618,466	—	53,220,328	53,220,328
Exchange rate differences on foreign currency	—	(519)	(519)	—	—	—
Income *(Note 1)*	22,384,498	—	22,384,498	20,481,697	—	20,481,697
Investment management fee *(Note 2)*	(783,139)	(783,139)	(1,566,278)	(724,700)	(724,701)	(1,449,401)
Expenses of administration *(Note 3)*	(290,934)	—	(290,934)	(323,664)	—	(323,664)
Net return before finance costs and taxation	21,310,425	33,834,808	55,145,233	19,433,333	52,495,627	71,928,960
Finance costs of borrowings *(Note 4)*	(3,240,778)	(3,237,810)	(6,478,588)	(3,042,400)	(3,038,426)	(6,080,826)
Return on ordinary activities before taxation	18,069,647	30,596,998	48,666,645	16,390,933	49,457,201	65,848,134
Taxation *(Note 5)*	(4,047,897)	669,476	(3,378,421)	(3,649,721)	709,980	(2,939,741)
Return on ordinary activities after taxation for the financial year	14,021,750	31,266,474	45,288,224	12,741,212	50,167,181	62,908,393
Dividends on Preference Stock *(Note 11)*	(42,997)	—	(42,997)	(42,997)	—	(42,997)
Return attributable to Ordinary Shareholders	13,978,753	31,266,474	45,245,227	12,698,215	50,167,181	62,865,396
Dividends on Ordinary Shares *(Note 6)*	(13,967,898)	—	(13,967,898)	(12,535,294)	—	(12,535,294)
Transfer to reserves	£10,855	£31,266,474	£31,277,329	£162,921	£50,167,181	£50,330,102
Return per Ordinary Share *(Note 7)*	13.66p	30.55p	44.21p	12.41p	49.02p	61.43p
Net Asset Value *(Note 14)*						
Per Ordinary Share			326.4p			295.9p
Per Preference Stock Unit			100.0p			100.0p

*The revenue column of this statement is the profit and loss account of the Company.

All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued in the year.

The total recognised revenue and capital return since the last audited accounts is £45,361,059. This amount comprises the total return for the year of £45,288,224, as shown above, and £72,835 relating to prior year adjustments (*Note 20*).

The Notes on pages 13 to 24 form part of these Accounts.

BALANCE SHEET
at 31st January 1997

	1997(£)	1997(£)	1996(£) (restated) (Note 20)
Fixed Assets			
Investments *(Notes 8 & 9)*		393,587,347	355,225,836
Current Assets			
Debtors *(Note 10)*	14,656,279		13,718,950
Cash at bank *(Note 10)*	12,180,027		14,128,401
	26,836,306		27,847,351
Creditors			
Amounts falling due within one year *(Note 10)*	(19,666,889)		(14,146,213)
Net Current Assets		7,169,417	13,701,138
Total Assets less Current Liabilities		400,756,764	368,926,974
Creditors			
Amounts falling due after more than one year *(Note 10)*		(65,545,215)	(64,992,754)
Total Net Assets		£335,211,549	£303,934,220
Capital and Reserves			
Called-up share capital:			
Ordinary *(Note 11)*		25,582,234	25,582,234
Preference *(Note 11)*		1,178,000	1,178,000
Share premium account		39,809	39,809
Capital Reserves:			
Realised *(Note 13)*	222,750,285		201,111,870
Unrealised *(Note 13)*	77,599,364		67,971,305
		300,349,649	269,083,175
Revenue Reserve *(Note 12)*		8,061,857	8,051,002
Shareholders' Funds *(Note 15)*		£335,211,549	£303,934,220
Analysis of Shareholders' Funds *(Note 14)*			
Equity interests		334,033,549	302,756,220
Non-equity interests		1,178,000	1,178,000
		£335,211,549	£303,934,220

Approved by the Board of Directors on 3rd April 1997
and signed on its behalf by–

COLIN H BLACK
DAVID HOPKINSON } *Directors*

The Notes on pages 13 to 24 form part of these Accounts.

CASH FLOW STATEMENT
for the year ended 31st January 1997

	1997(£)	1997(£)	1996(£) (restated)
Net cash inflow from operating activities *(Note 17)*		16,868,844	17,080,265
Servicing of finance			
Dividends paid on Preference Stock	(42,997)		(42,997)
Dividends paid on Ordinary Shares	(13,046,938)		(12,074,815)
Interest paid	(5,901,198)		(5,453,137)
Net cash outflow on servicing of finance		(18,991,133)	(17,570,949)
Taxation			
UK income tax paid	(696,826)		(129,289)
Taxation credits repaid	—		669,837
Total tax (paid) repaid		(696,826)	540,548
Investing activities			
Payments to acquire fixed asset investments	(161,609,878)		(145,663,335)
Proceeds on disposal of fixed asset investments	162,797,333		148,782,014
Net cash inflow from investing activities		1,187,455	3,118,679
(Decrease) Increase in cash and cash equivalents *(Note 18)*		£(1,631,660)	£3,168,543

The Notes on pages 13 to 24 form part of these Accounts.

STATEMENT OF ACCOUNTING POLICIES

for the year ended 31st January 1997

(i)

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

The financial statements have been prepared for the first time in accordance with the Statement of Recommended Practice 'Financial statements of investment trust companies' ('SORP').

As a result a number of prior year adjustments have been made to restate the 1996 results and financial position, in accordance with the revised accounting policies introduced as a result of adopting the SORP.

(ii)

Income - Equity dividends are accounted for on an ex-dividend basis and are grossed up at the appropriate rate of tax.

Income from convertible securities is recognised on an accruals basis.

Fixed returns on non-equity shares are recognised on an accruals basis.

Deposit interest receivable is accounted for on an accruals basis.

Underwriting commission is recognised when the issue underwritten closes. Previously, such income was accounted for on a receipts basis.

Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, the amount of the cash dividend is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend is recognised in capital reserves. Previously, the full value of the shares received was recognised as revenue.

(iii)

Investment management fee - The investment management fee is calculated on the basis set out in Note 2 and is charged to capital and revenue in the ratio 50:50 to reflect the Company's investment policy and prospective capital and income growth.

Previously the investment management fee was charged to the Revenue Account in full.

(iv)

Valuation – 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 the latest dealing prices, stockbrokers' valuations, net asset values, earnings and other known accounting information.

Unrealised differences between the value and book cost of investments at the year end are taken to the Unrealised Capital Reserve.

Net gains or losses arising on realisations of investments are taken to the Realised Capital Reserve.

(v)

Finance costs – In accordance with Financial Reporting Standard 4 "Capital Instruments", long term borrowings are stated as 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 the Capital Reserves and Revenue Account in the ratio 50:50 to reflect the Company's investment policy and prospective capital and income growth.

(vi)

Advance corporation tax – Advance corporation tax attributable to dividends proposed at the balance sheet date, less anticipated tax credits arising from franked investment income receivable up to the date of payment of the tax, is treated as a current liability and as a debtor to the extent that it is recoverable in the short term.

(vii)

Taxation – Where expenses are allocated between capital and revenue, any tax relief obtained in respect of those expenses is allocated between capital and revenue in the same proportion as the expenses are allocated, using the Company's effective rate of tax for the accounting period. Previously, such relief was allocated to capital at the Company's marginal rate of tax.

Deferred taxation, where applicable, is provided for on 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 liability or asset will accrue.

(viii)

Foreign currency – Transactions in foreign currencies are translated into sterling at the rates of exchange ruling on the date of the transaction. Foreign currency assets and liabilities are translated into sterling at the rates of exchange ruling at the balance sheet date. Profits and losses thereon are recognised in capital reserves.

NOTES TO THE ACCOUNTS

for the year ended 31st January 1997

1. Income

	1997(£)	1997(£)	1996(£) (restated)
Income from Fixed Asset Investments			
Franked income:			
Dividends from UK investments		18,075,155	15,652,881
Unfranked income:			
Interest from UK fixed income securities	2,602,926		2,235,460
Dividends from overseas equity securities	123,637		132,596
Foreign income dividends from UK equity securities	676,625		718,713
Enhanced scrip dividends from UK equity securities	—		123,750
		3,403,188	3,210,519
		21,478,343	18,863,400
Other income			
Deposit interest	643,705		1,241,462
Underwriting commission	262,450		376,835
		906,155	1,618,297
Total Income		£22,384,498	£20,481,697
Income from Fixed Asset Investments			
Listed		21,455,670	18,833,035
Unlisted		22,673	30,365
		£21,478,343	£18,863,400

2. Investment Management Fee

	1997(£) Revenue	1997(£) Capital	1997(£) Total	1996(£) (restated) Revenue	1996(£) (restated) Capital	1996(£) Total
Investment management fee	£783,139	£783,139	£1,566,278	£724,700	£724,701	£1,449,401

The Company's investment manager is Kleinwort Benson Investment Management Limited ('KBIM'). The management contract, terminable at 1 years' (1996 - 2 years') notice, provides for a management fee based on 0.35% (1996 - 0.35%) per annum of the value of the Company's assets calculated quarterly after deduction of current liabilities, short-term loans under one year and any funds within the portfolio managed by KBIM. The amounts stated include irrecoverable VAT of £233,275 *(1996 – £215,868)*. Under the contract KBIM provides the Company with investment management, accounting, secretarial, administration and UK custodial services.

3. Expenses of Administration

	1997(£)	1996(£)
Printing and postage	68,148	70,879
Registration charges	24,495	31,237
Association of Investment Trust Companies	18,653	21,313
Bank charges	10,176	14,358
Directors' fees	62,000	62,000
Auditors' remuneration for audit services	10,287	10,106
Trustee's fees	705	705
Savings Scheme expenses payable to KBIM	55,764	72,944
Other administrative expenses	41,312	41,727
VAT recovered	(606)	(1,605)
	£290,934	£323,664

(i) The above expenses include value added tax where applicable.
(ii) There were no expenses payable to the Auditors in respect of non-audit services *(1996 – Nil)*.
(iii) Directors' emoluments of £62,000 comprising fees were as follows:

	1997	1996
Chairman and highest paid Director	£12,000	£12,000
The emoluments of the Directors, including the Chairman and an alternate, fell within the following ranges:		
£0 - £5,000	1	1
£5,001 – £10,000	5	5
£10,001 – £15,000	1	1

4. Finance Costs of Borrowings

	1997(£) Revenue	1997(£) Capital	1997(£) Total	1996(£) Revenue	1996(£) Capital	1996(£) Total
On Stepped Rate Interest Loan repayable after more than five years	1,817,349	1,817,349	3,634,698	1,618,960	1,618,960	3,237,920
On Fixed Rate Interest Loan repayable after more than five years	1,392,961	1,392,961	2,785,922	1,391,966	1,391,966	2,783,932
On 4% Perpetual Debenture Stock repayable after more than five years	27,500	27,500	55,000	27,500	27,500	55,000
On sterling overdraft	2,968	—	2,968	3,974	—	3,974
	£3,240,778	£3,237,810	£6,478,588	£3,042,400	£3,038,426	£6,080,826

5. Taxation

	1997(£) Revenue	1997(£) Capital	1997(£) Total	1996(£) (restated) Revenue	1996(£) (restated) Capital	1996(£) (restated) Total
Tax credit for unrelieved management expenses at 20% (1996-20%)	432,617	(669,476)	(236,859)	518,043	(999,986)	(481,943)
Overseas taxation	249	—	249	1,121	—	1,121
Tax credits on franked investment income	3,615,031	—	3,615,031	3,130,576	—	3,130,576
Over provision of tax for previous year	—	—	—	(19)	290,006	289,987
	£4,047,897	£(669,476)	£3,378,421	£3,649,721	£(709,980)	£2,939,741

6. Dividends on Ordinary Shares

	1997(£)	1997(£)	1996(£)
Dividends on Ordinary Shares of 25p-			
First interim 3.25p paid 23rd August 1996 *(1996 - 3.0p)*		3,325,690	3,069,868
Second interim 3.25p paid 18th November 1996 *(1996 - 3.0p)*		3,325,690	3,069,868
Third interim 3.25p paid 21st February 1997 *(1996 - 3.0p)*		3,325,690	3,069,868
Final proposed - ordinary dividend 1.90p *(1996 - 3.25p)*	1,944,250		3,325,690
- foreign income dividend 2.00p *(1996 - nil)*	2,046,578		—
		3,990,828	3,325,690
		£13,967,898	£12,535,294

Ordinary dividends payable by the company carry a tax credit at a rate of 20%. Non-tax payers may be able to reclaim this tax credit. The foreign income dividend ('FID') carries a tax credit which discharges tax paying shareholders' liability to lower rate and basic rate income tax. Shareholders liable to pay tax in excess of the basic rate will have further tax to pay. For a FID distribution the tax credit is notional and not repayable.

7. Return per Ordinary Share

	1997(£) Revenue	1997(£) Capital	1997(£) Total	1996(£) (restated) Revenue	1996(£) (restated) Capital	1996(£) (restated) Total
Return after taxation	14,021,750	31,266,474	45,288,224	12,741,212	50,167,181	62,908,393
Attributable to Preference Stockholders	(42,997)	—	(42,997)	(42,997)		(42,997)
Attributable to Ordinary Shareholders	£13,978,753	£31,266,474	£45,245,227	£12,698,215	£50,167,181	£62,865,396
Return per Ordinary Share	13.66p	30.55p	44.21p	12.41p	49.02p	61.43p

The return per Ordinary Share is based on 102,328,936 Ordinary Shares of 25p in issue *(1996 – 102,328,936)*.

8. Fixed Asset Investments

	1997(£)	1996(£)
Listed at market valuation on recognised Stock Exchanges		
United Kingdom	389,916,265	351,968,496
Abroad	2,577,763	1,978,843
	£392,494,028	£353,947,339
Unlisted at Directors' valuation		
Abroad	882,890	1,055,448
Subsidiary at Directors' valuation *(Note 9)*	210,429	223,049
	£1,093,319	1,278,497
Total fixed asset investments	£393,587,347	£355,225,836
Market value of investments brought forward	355,225,836	316,494,392
Unrealised gains brought forward	(67,971,305)	(47,233,516)
Cost of investments held brought forward	287,254,531	269,260,876
Additions at cost	166,489,792	141,738,474
Disposals at cost	(137,756,340)	(123,744,819)
Cost of investments held at 31st January	315,987,983	287,254,531
Unrealised gains at 31st January	77,599,364	67,971,305
Market value of investments held at 31st January	£393,587,347	£355,225,836
Gains (losses) on investments		
Net realised gains based on historical costs	24,990,407	32,482,539
Less: Net unrealised gains recognised on these investments at the previous balance sheet date	(25,078,976)	(17,153,340)
Net realised (losses) gains based on carrying value at the previous balance sheet date	(88,569)	15,329,199
Net unrealised gains arising in the year	34,707,035	37,891,129
Net gains on investments	£34,618,466	£53,220,328

The Board considers that none of the Company's unquoted investments were individually material (or in aggregate) to the financial statements. In addition, no material disposals of unquoted investments took place during the year.

9. Investments in Subsidiary and Other Companies

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 JW O'Connor Associates LP and a shareholder in JW O'Connor & Co Inc., both of which are engaged in property development in the US and the aggregate of which have been included in the Company's unlisted holdings. It has no other material assets or liabilities. There were no balances outstanding between the Company and Surrey Investments Inc at 31st January 1997 nor have there been any transactions between them during the year ended at that date.

The Company has not produced consolidated accounts in view of the immaterial amounts involved.

9. Investments in Subsidiary and Other Companies (continued)

The Company holds more than 10% of the share capital 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 ('FDF')	'B' Shares	41.0	20.4
Fintrust Debenture PLC ('Fintrust')	Ordinary	35.3	35.3

In the opinion of the Directors, the Company is not in a position to exert significant influence over these companies. The aggregate share capital, reserves and results are immaterial and they have been accounted for as investments at nil value. FDF and Fintrust are the lenders of the Company's Stepped Rate Loan and Fixed Rate Interest Loan, as detailed in notes 10 (i) and (ii), respectively. The finance costs of these borrowings and outstanding balances at the year end are shown in notes 4 and 10 respectively. Apart from the finance costs there were no other transactions between FDF, Fintrust and the Company during the year.

10. Current Assets and Creditors

	1997(£)	1996(£) (restated)
Debtors–		
Sales for future settlement	11,731,767	11,782,353
Accrued income	2,377,837	1,576,959
Other debtors	25,796	92,233
Taxation recoverable	520,879	267,405
	£14,656,279	£13,718,950
Cash at bank–		
Sterling bank balances–		
Current account	82,904	78,433
Deposit accounts		
Barclays Bank plc	6,450,000	8,300,000
Kleinwort Benson Investment Management Ltd	5,647,123	5,749,968
	£12,180,027	£14,128,401
Creditors: Amounts falling due within one year–		
Purchases for future settlement	10,852,943	5,973,029
Bank overdraft	56,058	
Other creditors *(see (iv) below)*	1,406,123	1,369,606
Short-term loan	—	372,772
Interest on 4% Perpetual Debenture Stock	13,750	13,750
Dividend on Cumulative Preference Stock Units	21,497	21,498
Dividend on Ordinary Shares paid 21st February 1997	3,325,690	3,069,868
Dividends on Ordinary Shares (proposed) *(Note 6)*	3,990,828	3,325,690
	£19,666,889	£14,146,213
Creditors: Amounts falling due after more than one year–		
Stepped Rate Interest Loan *(see (i) below)*	34,307,501	33,756,186
Fixed Rate Interest Loan *(see (ii) below)*	29,862,714	29,861,568
4% Perpetual Debenture Stock *(see (iii) below)*	1,375,000	1,375,000
	£65,545,215	£64,992,754

10. Current Assets and Creditors (continued)

(i) 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 97.4%. £34,034,112 is payable in 2018 inclusive of a premium of £8,366,513 but exclusive of any redemption expenses. 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 First Debenture Finance PLC ('FDF') 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.

(ii) The Fixed Rate Interest Loan has been stated at net proceeds being the principal amount repayable of £30,000,000 less issue costs of £141,053 plus accrued finance costs. This loan is repayable in 2023 and 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. As security for this loan, the Company has granted floating charges over all its undertakings, property and assets in favour of the lender, Fintrust Debenture PLC ('Fintrust'). This charge ranks *pari passu* with the floating charge created by the Company to secure its obligations in relation to the 11.125% Severally Guaranteed Debenture Stock 2018 of FDF *(Note 16)* and in relation to the 4% Perpetual Debenture Stock.

(iii) The 4% Perpetual Debenture Stock is secured by a floating charge on the Assets of the Company.

(iv) Included within other creditors are £291,840 *(1996 - £269,987)* and £559,675 *(1996 - £556,600)* payable to FDF and to Fintrust respectively.

11. Share Capital

		1997(£)	1996(£)
Authorised			
1,178,000	3.65% Cumulative Preference Stock Units of £1	1,178,000	1,178,000
107,431,248	Ordinary Shares of 25p	26,857,812	26,857,812
		£28,035,812	£28,035,812
Allotted and fully paid			
1,178,000	3.65% Cumulative Preference Stock Units of £1	1,178,000	1,178,000
102,328,936	Ordinary Shares of 25p	25,582,234	25,582,234
		£26,760,234	£26,760,234

(i) The Cumulative Preference Stock Units have been classified as non-equity interests in shareholders' funds under the provisions of Financial Reporting Standard 4 on Capital Instruments issued by the Accounting Standards Board. The rights of the Stock to receive payments are not calculated by reference to the Company's profits and, in the event of a return of capital are limited to a specific amount, being £1,178,000.

Dividends on the Preference Stock are payable half yearly on 1st August and 1st February.

(ii) The Directors are authorised by an ordinary resolution passed on 15th May 1995 to allot relevant securities, in accordance with Section 80 of the Companies Act 1985, up to a maximum aggregate nominal amount of £1,275,578. This authority, if not previously revoked or varied, expires five years from the date of the resolution.

The Directors are also authorised by a special resolution passed on 13 May 1996 to allot relevant securities, in accordance with Section 95 of the Companies Act 1995, up to a maximum aggregate nominal amount of £1,275,578. This authority, if not previously revoked or renewed expires at the next Annual General Meeting and a resolution will be proposed at the Annual General Meeting for its renewal.

12. Revenue Reserve

	1997(£)	1996(£) (restated)
Balance at 1st February as previously reported	7,728,541	7,888,081
Prior year adjustment *(Note 20)*	322,461	—
Restated balance at 1st February	8,051,002	7,888,081
Revenue retained for the year	10,855	162,921
Balance at 31st January	£8,061,857	£8,051,002

13. Capital Reserves

	1997(£)	1997(£)	1996(£) (restated)
Realised			
Balance at 1st February as previously reported		201,361,496	171,682,478
Prior year adjustment *(Note 20)*		(249,626)	—
Restated balance at 1st February		201,111,870	171,682,478
Net gain (loss) on realisation of investments –			
Transfer from unrealised capital reserve on disposal of investments	25,078,976		17,153,340
Net (loss) gain on realisation of investments in the year based on their carrying value at previous balance sheet date	(88,569)		15,329,199
Net realised gains based on historical cost		24,990,407	32,482,539
Exchange rate differences on foreign currency		(519)	—
Investment management fee	(783,139)		(724,701)
Finance costs of borrowings	(3,237,810)		(3,038,426)
	(4,020,949)		(3,763,127)
Attributable taxation	669,476		709,980
		(3,351,473)	(3,053,147)
Balance at 31st January		£222,750,285	£201,111,870

13. Capital Reserves (continued)

	1997(£)	1997(£)	1996(£)
Unrealised			
Balance at 1st February		67,971,305	47,233,516
Net unrealised gains for the year–			
Transfer to realised capital reserve on disposal of investments *(see below)*	(25,078,976)		(17,153,340)
Net unrealised gains arising in the year	34,707,035		37,891,129
		9,628,059	20,737,789
Balance at 31st January		£77,599,364	£67,971,305
Analysed as follows–			
At valuation		393,587,347	355,225,836
At book value (cost less amounts written off)		(315,987,983)	(287,254,531)
		£77,599,364	£67,971,305

The transfer to the realised capital reserve represents the net unrealised gain recognised in prior years on investments sold during the current year.

14. Net Asset Value per Share

The Net Asset Value per share (which equals the net asset values attributable to each class of share at the year end calculated in accordance with the Articles of Association) were as follows:

	Net Asset Value per Share attributable 1997	1996 (restated)
Ordinary Shares of 25p	326.4p	295.9p
3.65% Cumulative Preference Stock Units £1	£1	£1

	Net Asset Value attributable 1997	1996 (restated)
Ordinary Shares of 25p	£334,033,549	£302,756,220
3.65% Cumulative Preference Stock Units £1	£1,178,000	£1,178,000

The movements during the year of the assets attributable to each class of share were as follows:

	Ordinary Shares £	Cumulative Preference Stock £	Total £
Total net assets attributable at 1st February 1996 (restated)	302,756,220	1,178,000	303,934,220
Total return on ordinary activities after taxation for the year	45,245,227	42,997	45,288,224
Dividends appropriated in the year	(13,967,898)	(42,997)	(14,010,895)
Total net assets attributable at 31st January 1997	£334,033,549	£1,178,000	£335,211,549

The Net Asset Value per Ordinary Share is based on 102,328,936 Ordinary Shares in issue at the year end *(1996 – 102,328,936).*

15. Reconciliation of Movements in Shareholders' Funds

	1997(£)	1996(£) (restated)
Distributable reserves		
Revenue profit available for distribution	14,021,750	12,741,212
Dividends appropriated in the year	(14,010,895)	(12,578,291)
Transfer to distributable reserves	10,855	162,921
Non-distributable reserves		
Recognised net capital profits transferred to non-distributable reserves	31,266,474	50,167,181
Net addition to Shareholders' Funds	31,277,329	50,330,102
Opening Shareholders' Funds as previously reported	303,861,385	253,604,118
Prior year adjustment *(Note 20)*	72,835	—
Restated Opening Shareholders' Funds	303,934,220	253,604,118
Closing Shareholders' Funds	£335,211,549	£303,934,220

16. Contingent Liabilities and Guarantees

At 31st January 1997 there were outstanding contingent liabilities of £ 304,000 *(1996 – £7,366,350)* in respect of underwriting commitments and calls on partly paid investments.

The Company has guaranteed the payment of its proportionate share (42.52%) of the required amount to enable First Debenture Finance PLC ('FDF') to meet all of its liabilities to repay principal and interest on its £80 million of 11.125% Severally Guaranteed Debenture Stock 2018. There is a floating charge on all the Company's present and future assets to secure this obligation. The Company has also agreed to meet its proportionate share of any expenses incurred by FDF, including any tax liability which may accrue to FDF as a result of the redemption or earlier transfer of the Stepped Rate Loan Notes and Bonds held by FDF.

The Company has also guaranteed Halifax Building Society (formerly Leeds Permanent Building Society) in respect of an indemnity given by FDF as part of the terms of the Stepped Rate Loan.

17. Reconciliation of Revenue on Ordinary Activities before Taxation to Net Cash Inflow from Operating Activities

	1997(£)	1996(£) (restated)
Revenue before taxation	18,069,647	16,390,933
Add: Finance costs of borrowings	3,240,778	3,042,400
Less: Management fee charged to capital	(783,139)	(724,701)
Less: Tax credits on franked investment income	(3,615,031)	(3,130,576)
Less: Overseas tax suffered	(249)	(1,121)
Less: UK tax suffered on investment income	(498,485)	(544,508)
Add: UK income tax deducted from interest paid	1,178,696	1,359,977
Less: Exchange rate differences on foreign currency transactions	(519)	—
	17,591,698	16,392,404
(Increase) Decrease in debtors	(734,441)	538,359
Increase in creditors	11,587	149,502
Net cash inflow from operating activities	£16,868,844	£17,080,265

18. Analysis of Changes in Cash and Cash Equivalents

	1997(£)	1996(£)
Balance at 1st February	13,755,629	10,587,086
Net cash inflow (outflow)	(1,631,660)	3,168,543
Balance at 31st January	£12,123,969	£13,755,629

19. Analysis of Cash and Cash Equivalents and Changes in Financing as shown in the Balance Sheet

	1997(£)	1996(£)
Cash at bank	12,180,027	14,128,401
Short term loan	—	(372,772)
Bank overdraft	(56,058)	—
	£12,123,969	£13,755,629

	Share Capital (including premium) £	Long-Term Borrowings £
Financing at 1st February 1996	26,800,043	64,992,754
Increase in accrued finance costs	—	552,461
Financing at 31st January 1997	£26,800,043	£65,545,215

20. Prior Year Adjustments

The prior year adjustments to the Revenue Reserve and Realised Capital Reserve relate to changes in accounting policy for (i) the bases of recognising income from securities and underwriting commission (ii) the basis of charging the management fee and (iii) the method of allocating tax between revenue and capital and have been explained within accounting policy notes (ii), (iii) and (vii) respectively as set out on page 13. The opening positions for the year ended 31st January 1997 have been adjusted as follows:

	£	£
Revenue Reserve		
Income from securities	(40,289)	
Underwriting commission	72,835	
Investment management fee	724,701	
Taxation	(434,786)	
		322,461
Capital Reserve – Realised		
Income from securities	40,289	
Investment management fee	(724,701)	
Taxation	434,786	
		(249,626)
Increase to reserves as at 1st February 1996		£72,835

The effect of adopting these changes in accounting policy on the results for the year ended 31st January 1997 has been to increase the revenue after taxation by £40,828 *(1996 – £ 322,461)* and decrease the net capital return by £113,663 *(1996 – £ 249,626).*

To the Shareholders of The Merchants Trust PLC

We have audited the financial statements on pages 10 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 13.

Respective Responsibilities of Directors and Auditors

As described on page 26 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 1997 and of its total return and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Price Waterhouse
Chartered Accountants and
Registered Auditors

London

3rd April 1997

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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. The Company complies with all of the provisions of the Cadbury Committee's Code of Best Practice. The Directors' Statement on internal financial control is in the Directors' Report on page 29. The Company's auditors, Price Waterhouse, have reviewed the Company's compliance with the specific matters in the Code which The London Stock Exchange requires that the auditors should review. Their report is set out on page 27.

The Board is currently composed of six non-executive directors, all of whom (with the exception of the Chairman's alternate director) 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.

REPORT BY THE AUDITORS ON CORPORATE GOVERNANCE MATTERS

To the Directors of The Merchants Trust PLC

In addition to our audit of the financial statements we have reviewed your statements on pages 26 and 29 concerning the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and the adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v), if not otherwise disclosed.

Basis of opinion

We carried out our review having regard to guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Company's systems of internal financial control or corporate governance procedures nor on the ability of the Company to continue in operational existence.

Opinion

In our opinion, your statements on internal financial control and going concern on page 29 have provided the disclosures required by the Listing Rules referred to above and are consistent with the information which came to our attention as a result of our audit work on the financial statements.

In our opinion, based on enquiry of certain directors and officers of the Company and examination of relevant documents, your statement on page 26 appropriately reflects the Company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

Price Waterhouse

Price Waterhouse
Chartered Accountants
London

3rd April 1997

DIRECTORS AND MANAGEMENT

Directors

Colin Black (Chairman)*
(Born February 1930) joined the Board in January 1992. A former Chairman of the Association of Investment Trust Companies, Kleinwort Benson Investment Management Limited, and Scottish Widows' Fund and Life Assurance Society, he is Chairman of Govett Asian Smaller Companies Trust Ltd and a director of Postern Fund Management Ltd and Temple Bar Investment Trust plc.

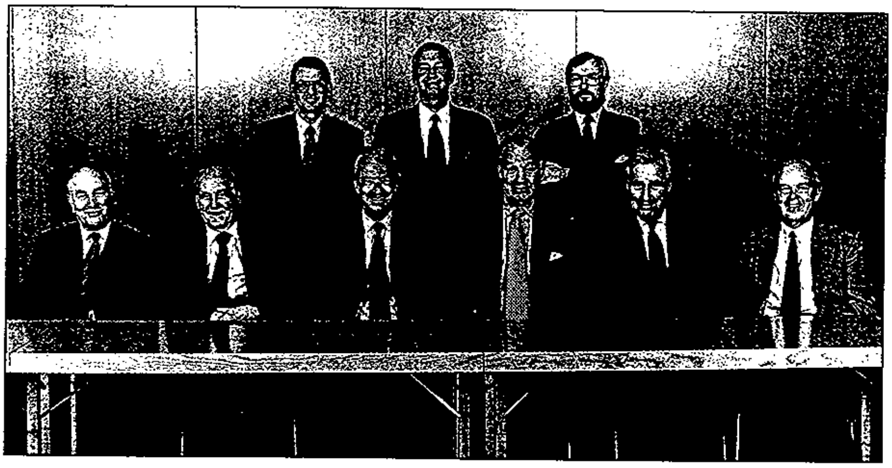
Sir Derek Birkin T.D.*
(Born September 1929) joined the Board in May 1986. Formerly Chairman of RTZ Corporation PLC, he is a director of Unilever PLC, Carlton Communications plc and Merck Inc.

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

Anthony Forbes*
(Born January 1938) joined the Board in July 1994. Formerly joint senior partner of Cazenove & Co, he is a director of Royal and Sun Alliance Insurance Group plc, Carlton Communications plc, Phoenix Group Limited and Watmoughs (Holdings) PLC.

David Hopkinson C.B.E., R.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 RTZ Pension Fund Trustees Ltd, S.E. Arts Board Ltd and Charities Investment Management Limited.

Sir Bob Reid*
(Born May 1934) joined the Board in January 1995. Formerly Chairman of British Rail and London Electricity plc. He is Chairman of Sears PLC and is a director of the Bank of Scotland.



Seated (left to right) - Anthony Forbes, David Hopkinson, Colin Black, Sir Derek Birkin, Sir John Banham, Sir Bob Reid
Standing (left to right) - Nigel Lanning, Ben Siddons, Peter Longcroft

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. He is a Deputy Chairman of the Association of Investment Trust Companies.

* Members of the Audit Committee

The Managers
Kleinwort Benson Investment Management Limited (KBIM)
Kleinwort Benson Investment Management Group manages assets valued at £13.6bn at 31st December 1996. This sum is made up of investment trust, unit trust, offshore and pension fund and other institutional and private client portfolios. In addition, associated companies and joint ventures manage assets valued at £13.5bn. KBIM is a member of the London Stock Exchange, is regulated by IMRO and is an authorised institution under the Banking Act 1987.
In August 1995 Kleinwort Benson became a member of the Dresdner Bank Group. Dresdner Bank is Germany's second largest bank and has a leading position in European commercial and investment banking.

Portfolio Manager
Nigel Lanning A.I.I.M.R., A.C.I.S.,
a Director of Kleinwort Benson Investment Management Limited.

Secretary and Registered Office
Peter Longcroft, A.C.I.S.
10 Fenchurch Street,
London, EC3M 3LB
Telephone: 0171-956 6600

Registrars and Transfer Office
Independent Registrars Group
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 Investment Management Limited

Stockbrokers
Cazenove & Co.

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 1996. 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.

Going Concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Internal Financial Control

The Directors have overall responsibility for the Company's system of internal financial control. Whilst acknowledging their responsibility for the system of internal financial control, the Directors are aware that such a system can provide only reasonable but not absolute assurance against material misstatement or loss.

The key elements of the procedures that the Directors have established and which are designed to provide effective internal financial control are as follows:-

Appointment of Kleinwort Benson Investment Management Limited ("KBIM") as the "Managers" and "Custodians" to provide investment management, custodial, accounting and secretarial services to the Company. KBIM therefore maintains the internal financial controls associated with the day to day operation of the Company. These responsibilities are included in the Management Agreement between the Company and KBIM (see page 32). KBIM's system of internal financial control includes organisation arrangements with clearly defined lines of responsibility and delegated authority as well as control procedures and systems which are regularly evaluated by management and monitored by their internal audit department. KBIM is regulated by IMRO and its compliance department regularly monitors their compliance with IMRO's rules.

Regular review and control by the Board of asset allocation and any risk implications. Regular and comprehensive review by the Board, of management accounting information including revenue and expenditure projections, actual revenue against projections, and performance comparisons.

Authorisation and exposure limits are set and maintained by the Board.

An audit committee which reviews the terms of the agreement with the Managers and Custodian, assesses the Managers' and Custodians' systems of controls and approves the appointment of sub-custodians. The audit committee also receives reports from the Managers' and Custodians' internal auditors, compliance department and independent auditors.

The Company's Auditors report on corporate governance matters is set out on page 27.

The Directors confirm that the audit committee have reviewed the effectiveness of the system of internal financial control.

Share Capital

There were no changes in the issued share capital of the Company during the year ended 31st January 1997.

Payment Policy

It is the Company's payment policy for the forthcoming financial year to obtain the best terms for all business and therefore there is no consistent policy as to the terms used. In general the Company agrees with its suppliers the terms on which business will take place and it is our policy to abide by these terms.

Invested Funds

Sales of investments during the year resulted in net gains based on historical cost of £24,990,407 (1996 – £32,482,539 restated). Provisions contained in the Finance Act 1980 exempt approved investment trusts from corporation tax on their chargeable gains. Invested funds at 31st January 1997 had a value of £393,587,347 before deducting net liabilities of £58,375,798 (1996 – £355,225,836 and £51,291,616 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 326.4p as compared with a value of 295·9p (restated) at 31st January 1996.

Donations and Subscriptions

Charitable donations in respect of the year aggregated £1,616 *(1996 – £1,300).*

Historical Record

There is included in the Investment Managers' Review on page 5 a schedule of the thirty largest holdings. The distribution of invested funds is shown on page 8, and the historical record of the Company's revenue, capital and invested funds over the past ten years is shown on page 3. Graphs are included on page 9 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, the growth in ordinary distributions made by the Company against the Retail Price Index over the same period and the Trust's gross ordinary yield compared to the gross yield on the FTSE 100 Index.

Business Review

A review of the Company's activities is given in the Chairman's Statement on page 2 and in the Investment Managers' Review on pages 4 to 7.

	£
Revenue for the year after deducting management and general expenses and finance costs of borrowings amounted to	18,069,647
Taxation absorbed	(4,047,897)
and there remained a balance of	14,021,750
from which has been deducted the dividend on £1,178,000 Preference Stock	(42,997)
leaving available for distribution to the Ordinary Shareholders	13,978,753

Business Review Cont'd

Dividends

	£	£
Provision has been made in the Accounts for dividends announced on the Ordinary Shares of 25p as follows:		
1st Interim 3.25p per Share paid 23rd August 1996	(3,325,690)	
2nd Interim 3.25p per Share paid 18th November 1996	(3,325,690)	
3rd Interim 3.25p per Share paid 21st February 1997	(3,325,690)	
Final 3.90p per Share proposed payable on 23rd May 1997	(3,990,828)	
		(13,967,898)
leaving a balance to be transferred to Revenue Reserve of		£10,855

Subject to the final dividend being approved payment will be made on 23rd May 1997 to shareholders on the Register of Members at the close of business on 18th April 1997 at the rate of 3·90p per Ordinary Share, and will consist of a 1.90p ordinary dividend and a 2.00p foreign income dividend. Further details are provided in Note 6 on page 16.

Substantial Shareholdings

In accordance with section 198 of the 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% Cumulative Preference Stock:—
Commercial Union plc—£200,000 (17·0%); 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)—4,496,666 (4·3%).
Barclays Bank PLC (and Subsidiaries)–3,074,863 (3.0%).

Directors and Management

Sir John Banham and Mr D. H. L. Hopkinson are the directors retiring in accordance with the Articles of Associates who, being eligible, offer themselves for re-election. Mr D. H. L. Hopkinson resigns having attained the age of seventy since the last Annual General Meeting and special notice has been given to propose his re-election.

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

	Ordinary Shares of 25p 1997		1996	
	Beneficial	As Trustee	Beneficial	As Trustee
C. H. Black	5,000	—	5,000	—
Sir John Banham	400	—	400	—
Sir Derek Birkin	400	—	400	—
A. D. A. W. Forbes	1,000	—	1,000	—
D. H. L. Hopkinson	13,572	—	13,236	—
Sir Bob Reid	500	—	500	—

On 26th February 1997 Mr. D. H. L. Hopkinson acquired a further 55 Ordinary Shares through the Personal Equity Plan and on 20th March 1997 Sir John Banham acquired a further 400 ordinary shares. 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 B. C. R. Siddons is a director of Kleinwort Benson Investment Management Limited, which provides all investment management and administrative services.

Management Agreement

The management agreement with Kleinwort Benson Investment Management Limited provides for a fee of 0.35% per annum (1996–0.35%) of the value of the assets, calculated quarterly, after deduction of current liabilities, short term loans under one year and In-House Funds. In addition, there is an initial fee of 2% of the value of unquoted investments introduced through Kleinwort Benson Development Capital Limited; there were no such investments during the year under review nor the previous year.

The management agreement is terminable at one years' (1996–two years') notice.

The Managers have discretion to exercise voting rights at the meetings of companies in which the Trust is invested, and will usually do so. However, in cases of takeover, merger or other offer involving a corporate client of the Managers or of any of its associated companies the voting rights may only be exercised with the approval of at least one independent director of the Trust. Similar approval must be sought in the case of any investment transaction in such companies or underwriting participations involving the securities of corporate clients of the Managers or any of its associated companies. The Managers do not have discretion over any securities of Dresdner Bank Group or its subsidiaries that may be held by the Trust.

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.

Analysis of Share Register

Shareholder Type	No. of Accounts		%		Ordinary Shareholding '000s		%	
	1997	1996	1997	1996	1997	1996	1997	1996
Private holders*	10,372	11,264	70.2	72.3	39,027	45,310	38.1	44.3
Nominees	3,327	3,178	22.5	20.4	50,844	41,908	49.7	41.0
Insurance Companies	168	182	1.1	1.1	2,888	4,226	2.8	4.1
Other holders	322	334	2.2	2.1	3,699	4,964	3.6	4.8
Pension Funds	7	7	0.1	0.1	75	73	0.1	0.1
Investment Trusts and Funds	573	620	3.9	4.0	5,796	5,848	5.7	5.7
	14,769	15,585	100·0	100·0	102,329	102,329	100·0	100·0

*Including PEP Nominees and Saving Scheme Nominees.

Based on an analysis of the Ordinary Share register at 5th March 1997 (16th February 1996).

Directors' and Officers' Liability Insurance
The Company maintained 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.

Special Business:-
Allotment of new shares
A Resolution was passed at the Annual General Meeting held on 13th May 1996 to authorise the Directors to allot the unissued share capital for cash. The power to allot new shares for cash other than pro rata to existing shareholders, limited to the aggregate nominal amount of £1,275,578 ordinary capital, being within 5 per cent of the issued ordinary share capital of the Company is renewable annually and expires at the conclusion of the Annual General Meeting in 1997. A Special Resolution is therefore proposed under special business at the forthcoming Annual General Meeting to renew this authority for a further year.

Whilst it is anticipated that allotments under this authority will normally be to the Kleinwort Benson Flexible Investment Scheme and Investment Trust PEP the resolution allows for allotments of new shares at the discretion of the Directors and is not limited only to these two Schemes. The Directors confirm that no allotment of new shares will be made unless the lowest market offer price of the ordinary shares is at least at a premium to net asset value (including undistributed income).

P. L. Longcroft

By Order of the Board
P. L. Longcroft
Secretary

3rd April 1997

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of **The Merchants Trust PLC** will be held at **20 Fenchurch Street, London, EC3P 3DB,** on Monday, 12th May 1997 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 1997 together with the Auditors' Report thereon.
2 To declare a final ordinary dividend of 1.90p per Ordinary Share.
3 To declare a final foreign income dividend of 2.00p per Ordinary Share.
4 To re-elect Sir John Banham as a Director.
5 To re-elect Mr D. H. L. Hopkinson as a Director.
(Special Notice has been received for the re-election of Mr D. H. L. Hopkinson who attained the age of seventy since the last Annual General Meeting).
6 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:–

7 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 £1,275,578 (being within 5 per cent. of the issued Ordinary Share capital at 31st January 1997).
(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.

P. L. Longcroft

10 Fenchurch Street,
London EC3M 3LB
17th April 1997

By Order of the Board
P. L. Longcroft
Secretary

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.

THE MERCHANTS TRUST PLC

FORM OF PROXY

FOR ANNUAL GENERAL MEETING

Notes on how to complete the proxy form

If you are a registered Shareholder and you are unable to attend the Meeting you may appoint a proxy to attend and, on a poll, to vote on your behalf.

Ⓐ Appointing a proxy
If you wish to appoint someone other than the Chairman as your proxy please cross out the words "the Chairman of the Meeting", initial the deletion, and insert the name and address of your proxy. A proxy need not be a member of the Company, but must attend the Meeting in order to represent you.

Ⓑ Telling your proxy how to vote
Tick the appropriate box indicating how your proxy should vote on the Resolutions. If you do not give instructions, your proxy will vote or abstain at his discretion.

Ⓒ How to sign the form
(i) Please print your name and address in the space provided and sign and date the form.
(ii) If someone else signs the form on your behalf, the authority entitling them to do so, or a certified copy of it, must accompany the form.
(iii) In the case of a corporation, this form must be executed either under its common seal or be signed on its behalf by an attorney or duly authorised officer of the corporation.
(iv) In the case of joint holders, the signature of the first-named on the Register of Members, in respect of the joint holding, shall be accepted to the exclusion of the other joint holders.

Returning the form
The form must reach the office of the Registrars of the Company no later than 48 hours before the time of the Meeting. If you are a registered Shareholder and you subsequently decide to attend the Meeting you may do so.

Ⓐ I/We, the undersigned, being (a) member(s) of the above named Company hereby appoint the Chairman of the Meeting or

SURNAME MR/MRS/MISS/TITLE ____________________

FORENAMES ____________________

ADDRESS ____________________

____

____

POSTCODE

as my/our proxy to attend and vote for me/us and on my/our behalf as directed below at the Annual General Meeting of the Company to be held on Monday 12th May 1997 and at any adjournment thereof.

Ⓑ Ordinary Business

	For	Against
1 To receive the Report and Accounts	☐	☐
2 To declare a final ordinary dividend of 1.90p	☐	☐
3 To declare a final foreign income dividend of 2.00p	☐	☐
4 To re-elect Sir John Banham as a Director	☐	☐
5 To re-elect Mr D. H. L. Hopkinson as a Director	☐	☐
6 To re-appoint Price Waterhouse as Auditors and to authorise the Directors to determine their remuneration	☐	☐

Special Business

	For	Against
7 To renew the Directors' authority to allot shares for cash	☐	☐

Ⓒ

SURNAME MR/MRS/MISS/TITLE ____________________

FORENAMES ____________________

ADDRESS ____________________

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POSTCODE

SIGNATURE DATE

Third Fold and Tuck in

BUSINESS REPLY SERVICE

Licence No. MB 122

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First Fold

Independent Registrars Group Ltd
Proxies Department,
Bourne House,
34 Beckenham Road,
BECKENHAM,
Kent
BR3 4BR

Second Fold