

Company No:  
28276

**THE MERCHANTS TRUST PLC**  
**INTERIM REPORT AND ACCOUNTS (unaudited)**  
**for the six months ended 31st July 2000**



The Merchants Trust PLC

**REVENUE ACCOUNT**  
for the six months ending 31st July 2000

		2000 £
<b>Income from Fixed Asset Investments</b>		
		9,508,493
	Dividends from UK equities	63,139
	Interest from overseas fixed income securities	752,887
	Interest from UK fixed income securities	<u>10,324,519</u>
<b>Other Income</b>		
		8,202
	Underwriting commission	210,746
	Deposit interest	<u>10,543,467</u>
<b>Gross Revenue</b>		
		(400,907)
	Investment management fee	(351,349)
	Administrative expenses	<u>9,791,211</u>
<b>Net return before finance costs and taxation</b>		
		(1,639,744)
	Finance costs of borrowing	<u>8,151,467</u>
<b>Revenue Return on Ordinary Activities before Taxation</b>		
		(158,998)
	Taxation	<u>7,992,469</u>
<b>Return on Ordinary Activities after taxation</b>		
		(21,499)
	Dividends on Preference shares	<u>7,970,970</u>
<b>Return attributable to Ordinary shareholders</b>		
		(8,390,974)
	Dividends on Ordinary shares	<u>(420,004)</u>
<b>Retained Deficit</b>		
		7.79p
	Return per Ordinary Share	

The Notes on pages 3 to 8 form part of these accounts

**The Merchants Trust PLC**

**BALANCE SHEET**  
as at 31st July 2000

		2000	2000
		£	£
<b>Fixed Assets</b>			
Investments	7		552,003,574
<b>Current Assets</b>			
Debtors	9	7,094,280	
Cash		16,205,768	
		<u>23,300,048</u>	
<b>Creditors</b>			
Amounts falling due in less than one year	9	<u>(20,926,571)</u>	
<b>Net current assets</b>			2,373,477
<b>Total Assets less Current Liabilities</b>			<u>554,377,051</u>
<b>Creditors - Amounts falling due after more than one year</b>	9		(112,103,856)
<b>Total Net Assets</b>			<u>442,273,195</u>
 <b>Capital and Reserves</b>			
Called up share capital	10		25,582,234
Preference share capital	10		1,178,000
Share Premium			39,809
Capital Reserves			
Realised	12	366,484,685	
Unrealised	12	<u>39,115,633</u>	
			405,600,318
Revenue Reserve	11		9,872,834
<b>Shareholders' Funds</b>			<u>442,273,195</u>

Approved by the Board of Directors on 13th November 2000 and signed on its behalf by:-



The Notes on pages 3 to 8 form part of these accounts

**STATEMENT OF ACCOUNTING POLICIES  
for the six months ending 31st July 2000**

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- i) The accounts have been prepared under the historical cost convention, modified to include the revaluation of investments, and in accordance with the applicable accounting standards. The financial statements have been prepared under the requirements of S272 of the Companies Act.
- ii) Income - equity dividends are accounted for on an ex-dividend basis. UK dividends are accounted for net of any tax credit. Foreign dividends are stated gross of withholding tax. Income from convertible securities, fixed returns on non-equity shares, and deposit interest receivable are accounted for on an accruals basis. Underwriting commission is recognised when the issue underwritten closes.
- iii) Investment management fee - the investment management fee is calculated at 0.35% per annum of the value of the assets calculated quarterly (after deduction of current liabilities, short term loans under one year and any funds within the portfolio managed by Dresdner RCM). The investment management fee is charged to revenue and capital in the ratio 65:35 to reflect the Company's investment policy and prospective capital and income return.
- 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 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 FRS 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 Reserve and Revenue Account in the ratio 65:35 to reflect the Company's investment policy and prospective capital and income return.
- vi) 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 corporation tax for the accounting period.

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.

vii) 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. Profit and losses thereon are recognised in capital reserves.

**The Merchants Trust PLC**  
**NOTES TO THE ACCOUNTS**  
for the six months ending 31st July 2000

<b>1 Investment Management fee</b>	<b>2000</b> <b>£</b> <b>Revenue</b>	<b>2000</b> <b>£</b> <b>Capital</b>	<b>2000</b> <b>£</b> <b>Total</b>
Investment Management fee	400,907	744,634	1,145,541

The investment management fee is calculated on the basis set out in the Statement of Accounting Policies.

<b>2 Administrative expenses</b>	<b>2000</b> <b>£</b>
Directors' fees	43,685
Contribution to running of Savings Plan	151,236
Contribution to <b>its</b> campaign	43,862
Other administrative expenses	112,566
	<u>351,349</u>

<b>3 Finance costs of borrowing</b>	<b>2000</b> <b>£</b> <b>Revenue</b>	<b>2000</b> <b>£</b> <b>Capital</b>	<b>2000</b> <b>£</b> <b>Total</b>
On Stepped Rate Interest Loan repayable after more than five years	611,907	1,136,398	1,748,305
On Fixed Rate Interest Loans repayable after more than five years	663,208	1,231,672	1,894,880
On 4% Perpetual Debenture Stock repayable after more than five years	9,625	17,875	27,500
On 5.875 % Secured Bonds 2029 repayable after more than five years	334,100	620,474	954,574
On sterling overdraft	20,904	-	20,904
	<u>1,639,744</u>	<u>3,006,419</u>	<u>4,646,163</u>

<b>4 Taxation</b>	<b>2000</b> <b>£</b> <b>Revenue</b>	<b>2000</b> <b>£</b> <b>Capital</b>	<b>2000</b> <b>£</b> <b>Total</b>
Credit for expenses allocated to capital	158,998	(158,998)	-
	<u>158,998</u>	<u>(158,998)</u>	<u>-</u>

<b>5 Dividends on Ordinary shares</b>	<b>2000</b> <b>£</b>
Dividends on Ordinary shares of 25p - First interim 4.10p	4,195,487
Second interim 4.10p	4,195,487
	<u>8,390,974</u>

**The Merchants Trust PLC**

**6 Return per Ordinary share**

	2000 £ Revenue	2000 £ Capital	2000 £ Total
Return after taxation	7,992,469	51,197,236	59,189,705
Attributable to Preference shareholders	(21,499)	-	(21,499)
Return attributable to Ordinary shareholders	<u>7,970,970</u>	<u>51,197,236</u>	<u>59,168,206</u>
Return per Ordinary share	7.79p	50.03p	57.82p

The return per Ordinary share is based on 102,238,936 Ordinary shares in issue

**7 Fixed asset investments**

	2000 £
Listed at market valuation on recognised Stock Exchanges	
United Kingdom	551,517,064
Abroad	-
	<u>551,517,064</u>
Unlisted at Directors' valuation	
Abroad	50,201
Subsidiary at Directors' valuation	436,309
	<u>486,510</u>
	<u>552,003,574</u>
Market value of investments brought forward	508,246,237
Unrealised gains brought forward	<u>(6,822,647)</u>
Cost of investments brought forward	501,423,590
Additions at cost	148,835,415
Disposals at cost	<u>(137,371,064)</u>
Cost of investments at 31st July	512,887,941
Unrealised gains at 31st July	39,115,633
	<u>552,003,574</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 share held	% of class held	% equity
First Debenture Finance PLC	"B" shares	41.0	20.4
Fintrust Debenture PLC	Ordinary	49.5	49.5

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

## The Merchants Trust PLC

### 8 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 JW O'Connor Associates and a shareholder in JW O'Connor & Co Inc., both of which are engaged in property development in the US. There were no balances outstanding between the Company and Surrey Investments at 31st July 2000 nor have there been any transactions between them during the period ended at that date.

### 9 Current Assets and Creditors

	2000 £
Debtors -	
Sales for future settlement	4,649,071
Accrued income	2,431,075
Other debtors	14,134
	<u>7,094,280</u>
Creditors - amounts falling due within one year	
Purchases for future settlement	(7,897,225)
Other creditors	(2,483,592)
Short term sterling loan	(1,878,255)
Taxation payable	(241,276)
Interest on 4% Perpetual Debenture Stock	(13,750)
Dividend on Cumulative Preference Stock Units	(21,499)
Dividends on Ordinary shares	(8,390,974)
	<u>(20,926,571)</u>
Creditors - amounts falling due after more than one year	
Stepped Rate Interest Loan (see (i) below)	(34,856,395)
Fixed Rate Interest Loan (see (ii) below)	(46,912,260)
5.875% Secured Bonds 2029 (see (iii) below)	(28,960,201)
4% Perpetual Debenture Stock (see (iv) below)	(1,375,000)
	<u>(112,103,856)</u>

(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, payable on the Bonds in July and January, was at an initial rate of 7.16% per annum increasing annually by 7.5% compound until January 1998. Thereafter, interest became payable 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. A floating charge has been granted over all the Company's present and future assets, guaranteeing the repayment of £34,034,112 being its proportionate share (42.52%) of the required amount to enable FDF to meet all of its liabilities to repay principal and interest on its £80 million of 11.125% Severally Guaranteed Debenture Stock 2018. The accounting treatment adopted in respect of the stepped rate interest and redemption premium is set out in the Statement of Accounting Policies.

The effective interest rate of this borrowing is 11.28%.

(ii) The Fixed Rate Interest Loan of £42,000,000 is due to Fintrust Debenture PLC (Fintrust). 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 a floating charge over all of its undertakings, property and assets in favour of the lender. This charge ranks pari passu with the floating charge note in (i) above.

Following the liquidation of Kleinwort Overseas Investment Trust plc (KOIT) in March 1998, the Company assumed £12,000,000 of its obligations to Fintrust. Both the interest cost and the repayment terms of this additional borrowing are identical to the Company's existing loan. In order that the finance costs on this new borrowing be comparable to existing market rates at that time, the Company also received a premium payment from KOIT of £5,286,564. This premium is being amortised over the remaining life of the loan in accordance with FRS4, as set out in the Statement of Accounting Policies.

The effective rates of the original loan and that assumed from KOIT are 9.30% and 6.00% respectively.

**The Merchants Trust PLC**

**9 Current Assets and Creditors (continued)**

(iii) In December 1999, the Company issued £30,000,000 5.875% Secured Bonds at 97.241%. The consideration received after issue costs amounted to £28,942,800. The Bonds, repayable on 20th December 2029, carry interest at the rate of 5.875% per annum on the principal amount payable in arrears by equal half yearly instalments on 20th June and 20th December in each year. As security for this loan the Company has granted a floating charge over the whole of the present and future undertakings, property, assets and rights of the Company.

The accounting treatment adopted in respect of the Bonds is set out in the Statement of Accounting Policies.

The effective rate of this borrowing is 6.13%.

(iv) The 4% Perpetual Debenture Stock is secured by a floating charge on all the assets of the Company, which ranks prior to any other floating charge.

<b>Share Capital</b>	<b>2000</b>
	<b>£</b>
<b>10</b> Authorised	
1,178,000 3.65% Cumulative Preference Stock Units of £1	<u>1,178,000</u>
107,431,248 Ordinary shares of 25p	<u>26,857,812</u>
Allotted and fully paid	
1,178,000 3.65% Cumulative Preference Stock Units of £1	1,178,000
102,328,936 Ordinary shares of 25p	25,582,234
	<u>26,760,234</u>

<b>Revenue Reserve</b>	<b>2000</b>
	<b>£</b>
<b>11</b> Balance at 31st January 2000	10,288,474
Deficit retained for the period	(420,004)
Dividends forfeited	4,364
	<u>9,872,834</u>
Balance at 31st July 2000	

<b>Capital Reserves</b>	<b>2000</b>
	<b>£</b>
<b>12</b> Realised -	
Balance brought forward at 1st February	347,584,119
Net gains and losses on realisation of investments	22,496,305
Investment Management fee (Note 1)	(744,634)
Finance costs (Note 3)	(3,006,419)
Taxation (Note 4)	158,998
Expenses associated with share buybacks	(3,684)
	<u>366,484,685</u>
Balance at 31st July	
Unrealised -	
Invested funds at 31st July	
At valuation	552,003,574
At cost	(512,887,941)
	<u>39,115,633</u>
Balance at 31st July	

**The Merchants Trust PLC**

**13 Reconciliation of Movements in Shareholders' Funds**

**2000**

**£**

**Distributable profits**

Revenue profit available for distribution

7,970,970

Dividends

(8,390,974)

Dividends forfeited

4,364

Transfer from distributable reserves

(415,640)

**Non-distributable profits**

Recognised capital gains and losses transferred to non-distributable reserves

51,197,236

**Financing**

Expenses associated with share buybacks

(3,684)

Net increase in shareholders' funds

50,777,912

Opening Shareholders' Funds

391,495,283

Closing Shareholders' Funds

442,273,195