Company No:
28276

THE MERCHANTS TRUST PLC

INTERIM REPORT AND ACCOUNTS (unaudited)

for the eleven months ended 31 December 2003

The Merchants Trust PLC

REVENUE ACCOUNT
for the eleven months ending 31 December 2003

		2003 £
Income from Fixed Asset Investments		
Dividends from UK equities		21,234,348
Dividends from overseas equities		36,182
		21,270,530
Other Income		
Underwriting commission		69,592
Deposit interest		74,626
Stock lending fees		20,023
Other income		239
		164,480
Gross Revenue		21,435,010
Investment management fee	1	(558,841)
Administrative expenses	2	(618,977)
Net Return before Finance Costs and Taxation		20,257,192
Finance costs of borrowings	3	(3,049,246)
Revenue Return on Ordinary Activities before Taxation		17,207,946
Taxation		(12,664)
Return on Ordinary Activities after Taxation		17,195,282
Dividends on Preference Shares		(21,499)
Return attributable to Ordinary Shareholders		17,173,783
Dividends on Ordinary Shares	4	(8,780,939)
Retained Revenue		8,392,844
Return per Ordinary Share	5	16.82p

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

The Merchants Trust PLC

BALANCE SHEET
as at 31 December 2003

		2003 £	2003 £
Fixed Assets			
Investments	6		483,907,141
Current Assets			
Debtors	7	2,037,325	
Cash		5,046,722	
		7,084,047	
Creditors			
Amounts falling due in less than one year	7	(1,875,858)	
Net current assets			5,208,189
Total Assets less Current Liabilities			489,115,330
Creditors - Amounts falling due after more than one year	7		(113,236,653)
Total Net Assets			375,878,677
Capital and Reserves			
Called up share capital	8		25,525,984
Preference share capital	8		1,178,000
Share Premium Account			39,809
Capital Redemption Reserve			56,250
Capital Reserves			
Realised	10	330,447,716	
Unrealised	10	44,356	
			330,492,072
Revenue Reserve	9		18,586,562
Shareholders' Funds			375,878,677

Approved by the Board of Directors on 16 February 2004 and signed on its behalf by:

K. A. [illegible]

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

STATEMENT OF ACCOUNTING POLICIES
for the eleven months ending 31 December 2003

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 Allianz Dresdner Asset Management). 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. 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) *Deferred taxation - Deferred taxation is provided in full ontiming differences that result in an obligation at the* balance sheet date to pay more tax, or a right to pay less tax, at a future date. Where deferred tax assets are likely to be considered irrecoverable, no provision is made.

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.

1 Investment management fee

	2003 £ Revenue	2003 £ Capital	2003 £ Total
Investment management fee	558,841	1,018,948	1,577,789

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

2 *Administrative expenses*

	2003 £
Directors' fees	63,950
Contribution to running of Savings Scheme	292,607
Other administrative expenses	262,420
	618,977

3 Finance costs of borrowings

	2003 £ Revenue	2003 £ Capital	2003 £ Total
On Stepped Rate Interest Loan repayable after more than five years	1,242,976	2,308,384	3,551,360
On Fixed Rate Interest Loans repayable after more than five years	1,211,335	2,249,624	3,460,959
On 4% Perpetual Debenture Stock repayable after more than five years	19,250	35,750	55,000
On 5.875 % Secured Bonds 2029 repayable after more than five years	570,172	1,058,891	1,629,063
On sterling overdraft	5,513	-	5,513
	3,049,246	5,652,649	8,701,895

4 Dividends on Ordinary shares

	2003 £
Dividends on Ordinary shares of 25p -	
First interim 4.30p (paid 15 August 2003)	4,390,470
Second interim 4.30p (paid 12 November 2003)	4,390,469
	8,780,939

5 *Return per Ordinary share*

	2003 £ Revenue	*2003* £ Capital	*2003* £ Total
Return after taxation	17,195,282	92,900,562	110,095,844
Attributable to Preference shareholders	(21,499)	-	(21,499)
Return attributable to Ordinary shareholders	17,173,783	92,900,562	110,074,345
Return per Ordinary Share	16.82p	90.99p	107.81p

The return per Ordinary Share is based on 102,103,936 Ordinary shares in issue

6 Fixed asset investments

	2003 £
Listed at market valuation on recognised Stock Exchanges	
United Kingdom	483,907,141
Abroad	-
	483,907,141
Market value of investments brought forward	391,703,740
Unrealised losses brought forward	115,624,254
Cost of investments brought forward	507,327,994
Additions at cost	143,006,227
Disposals at cost	(166,471,436)
Cost of investments at 31 December	483,862,785
Unrealised gains at 31 December	44,356
	483,907,141

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
First Debenture Finance PLC	"A" shares	39.2
First Debenture Finance PLC	"B" shares	59.2
First Debenture Finance PLC	"C" shares	45.6
First Debenture Finance PLC	"D" shares	60.1
Fintrust Debenture PLC	Ordinary	50.0

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 have been accounted for as investments at cost .

7 Current Assets and Creditors

	2003 £
Debtors -	
Accrued income	2,034,207
Other debtors	3,118
	2,037,325
Creditors - amounts falling due within one year	
Other creditors	(1,875,858)
Short term sterling loan	0
	(1,875,858)
Creditors - amounts falling due after more than one year	
Stepped Rate Interest Loan (see (i) below)	(36,809,636)
Fixed Rate Interest Loan (see (ii) below)	(46,199,042)
5.875% Secured Bonds 2029 (see (iii) below)	(28,852,975)
4% Perpetual Debenture Stock (see (iv) below)	(1,375,000)
	(113,236,653)

(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 2 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 (60.10%) of the required amount to enable FDF to meet all of its liabilities to repay principal and interest on its £56.6 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 20 May and 20 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.

7 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. 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.

8 Share Capital

		2003 £
Authorised		
1,178,000	3.65% Cumulative Preference Stock Units of £1	1,178,000
107,431,248	Ordinary Shares of 25p	26,857,812
Allotted and fully paid		
1,178,000	3.65% Cumulative Preference Stock Units of £1	1,178,000
102,103,936	Ordinary Shares of 25p	25,525,984
		26,703,984

9 Revenue Reserve

	2003 £
Balance at 1 February 2003	10,193,718
Revenue retained for the period	8,392,844
Balance at 31 December 2003	18,586,562

10 Capital Reserves

	2003 £
Realised -	
Balance brought forward at 1 February 2003	353,215,764
Net gains and losses on realisation of investments	(16,776,451)
Special dividend	680,000
Investment management fee (Note 1)	(1,018,948)
Finance costs of borrowings (Note 3)	(5,652,649)
Balance at 31 December 2003	330,447,716
Unrealised -	
Invested funds at 31 December 2003	
At valuation	483,907,141
At cost	(483,862,785)
Balance at 31 December 2003	44,356

11 Reconciliation of Movements in Shareholders' Funds

	2003 £
Distributable profits	
Revenue profit available for distribution	17,173,783
Dividends	(8,780,939)
Transfer to distributable reserves	8,392,844
Non-distributable profits	
Recognised capital gains and losses transferred to non-distributable reserves	92,900,562
Net increase in shareholders' funds	101,293,406
Opening Shareholders' Funds	274,585,271
Closing Shareholders' Funds	375,878,677