Interim

Company No:
28276

THE MERCHANTS TRUST PLC

REPORT AND ACCOUNTS (unaudited)

for the period 1st February 2005 to 31st January 2006

The Merchants Trust PLC

REVENUE ACCOUNT
for the period 1st February 2005 to 31st January 2006

	Note	2006 £
Income from Fixed Asset Investments		
Dividends from UK equities		24,182,897
Dividends from overseas equities		151,663
		24,334,560
Other Income		
Underwriting commission		10,363
Deposit interest		339,652
Stock lending fees		6,238
Other income		0
		356,253
Gross Revenue		24,690,813
Investment management fee	1	(821,062)
Administrative expenses	2	(629,940)
Net Return before Finance Costs and Taxation		23,239,811
Finance costs of borrowings	3	(3,386,522)
Revenue Return on Ordinary Activities before Taxation		19,853,289
Taxation		0
Return attributable to Ordinary Shareholders		19,853,289
Return per Ordinary Share	5	19.44p

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

The Merchants Trust PLC

BALANCE SHEET
as at 31st January 2006

	Note	2006 £	2006 £
Fixed Assets			
Investments	6		621,948,270
Current Assets			
Debtors	7	3,506,965	
Cash		5,374,796	
		8,881,761	
Creditors			
Amounts falling due in less than one year	7	(2,842,941)	
Net Current Assets			6,038,820
Total Assets less Current Liabilities			627,987,090
Creditors - Amounts falling due after more than one year	7		(113,353,401)
Total Net Assets			514,633,689
Capital and Reserves			
Called up Share Capital	8		25,525,984
Share Premium Account			39,809
Capital Redemption Reserve			56,250
Capital Reserves			
Realised	10	351,028,965	
Unrealised	10	118,104,550	
			469,133,515
Revenue Reserve	9		19,878,131
Shareholders' Funds			514,633,689

Approved by the Board of Directors on 16 February 2006 and signed on its behalf by:

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

STATEMENT OF ACCOUNTING POLICIES
for the period 1st February 2005 to 31st January 2006

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 on timing 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.

viii) Dividends - Final dividends are recognised as a liability when approved by the shareholders. Interim dividends are recognised only when paid in accordance with FRS 21.

1 Investment management fee

	2006 £ Revenue	2006 £ Capital	2006 £ Total
Investment management fee	821,062	1,524,829	2,345,891

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

2 Administrative expenses

	2006 £
Directors' fees	69,388
Contribution to running of Savings Scheme	232,018
Other administrative expenses	328,534
	629,940

3 Finance costs of borrowings

	2006 £ Revenue	2006 £ Capital	2006 £ Total
On Stepped Rate Interest Loan repayable after more than five years	1,384,740	2,571,660	3,956,400
On Fixed Rate Interest Loans repayable after more than five years	1,321,650	2,454,493	3,776,143
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	623,053	1,157,098	1,780,151
On 3.65 % Preference Stock repayable after more than five years	15,049	27,948	42,997
On sterling overdraft	22,780	-	22,780
	3,386,522	6,246,949	9,633,471

4 Dividends on Ordinary shares

	2006 £
Dividends on Ordinary shares of 25p -	
Prior period unclaimed dividends	(23,966)
First interim 4.60p (paid 18th August 2005)	4,696,781
Second interim 4.70p (paid 10th November 2005)	4,798,885
	9,471,700

5 Return per Ordinary share

	2006 £ Revenue	2006 £ Capital	2006 £ Total
Return attributable to Ordinary shareholders	19,853,289	88,930,546	108,783,835
Return per Ordinary Share	19.44p	87.10p	106.54p

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

6 Fixed Assets

	2006 £
Listed at market valuation on recognised Stock Exchanges	
United Kingdom	621,905,781
Abroad	42,489
	621,948,270
Market value of investments brought forward	535,094,994
Unrealised gains brought forward	(57,962,642)
Cost of investments brought forward	477,132,352
Additions at cost	139,140,608
Disposals at cost	(112,429,240)
Cost of investments at 31st January 2006	503,843,720
Unrealised gains at 31st January 2006	118,104,550
	621,948,270

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	53.3
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

	2006 £
Debtors -	
Sales for future settlement	2,196,299
Accrued income	1,214,993
Other debtors	95,673
	3,506,965
Creditors - amounts falling due within one year	
Other creditors	(2,842,941)
Creditors - amounts falling due after more than one year	
Stepped Rate Interest Loan (see (i) below)	(35,512,189)
Fixed Rate Interest Loan (see (ii) below)	(46,253,156)
5.875% Secured Bonds 2029 (see (iii) below)	(29,035,056)
4% Perpetual Debenture Stock (see (iv) below)	(1,375,000)
3.65% Cumulative Preference Stock Units of £1 (see (v) below)	(1,178,000)
	(113,353,401)

(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 £34,012,852 being its proportionate share (65.15%) of the required amount to enable FDF to meet all of its liabilities to repay principal and interest on its £52.2 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.

7 Current Assets and Creditors (continued)

(iii) The £30,000,000 5.875% Secured Bonds, repayable on 20 December 2029, carry interest at the rate of 5.875% per annum on the principal amount payable in arrears by equal half yearly instalments in June and December in each year. As security for this loan the Company has granted a floating charge ranking pari passu with the floating charges referred to in note (i) and (ii) above over the whole of the present and future undertakings, property, assets and rights of the Company.

The accounting treatment adopted in respect of the Secured 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.

(v) The 3.65% Preference Stock has been reclassified as a long term liability.

8 Share Capital	**2006**
	£
Authorised	
107,431,248 Ordinary Shares of 25p	26,857,812
Allotted and fully paid	
102,103,936 Ordinary Shares of 25p	25,525,984

9 Revenue Reserve	**2006**
	£
Balance at 1st February 2005	18,685,896
Revenue retained for the period	1,192,235
Balance at 31st January 2006	19,878,131

10 Capital Reserves	**2006**
	£
Realised -	
Balance brought forward at 1st February 2005	322,240,327
Net gains on realisation of investments	36,565,840
Investment management fee (Note 1)	(1,524,829)
Finance costs of borrowings (Note 3)	(6,246,949)
Other capital charges	(5,424)
Balance at 31st January 2006	351,028,965
Unrealised -	
Invested funds at 31st January 2006	
At valuation	621,948,270
At cost	(503,843,720)
Balance at 31st January 2006	118,104,550

11 Reconciliation of Movements in Shareholders' Funds

	2006 £
Distributable profits	
Revenue profit available for distribution	19,853,289
Dividends	(18,661,054)
Transfer to distributable reserves	1,192,235
Non-distributable profits	
Recognised capital gains and losses transferred to non-distributable reserves	88,930,546
Net increase in shareholders' funds	90,122,781
Opening Shareholders' Funds	424,510,908
Closing Shareholders' Funds	514,633,689

12 Restatement of opening balances

		2005 As previously stated £	2005 Adjustments £	2005 Restated £
Fixed Assets		535,094,994	0	535,094,994
Current Assets		(6,453,984)	9,189,354 [1]	2,735,370
		528,641,010	9,189,354	537,830,364
Creditors: amounts due after more than one year		(112,141,456)	(1,178,000) [2]	(113,319,456)
Total Net Assets		416,499,554	8,011,354	424,510,908
Capital and Reserves				
Called up Share Capital:	- ordinary	25,525,984	0	25,525,984
	- preference	1,178,000	(1,178,000) [2]	0
Capital Redemption Reserve		56,250	0	56,250
Share Premium Account		39,809	0	39,809
Capital Reserves:	- realised	322,240,327	0	322,240,327
	- unrealised	57,962,642	0	57,962,642
Revenue reserve		9,496,542	9,189,354 [1]	18,685,896
Shareholders' Funds		416,499,554	8,011,354	424,510,908
Net Asset Value per Ordinary Share		406.8p		415.8p

1. £9,189,354 represents the effect of not recognising the 3rd and 4th quarter dividends (FRS 21) for the year ended 31st January 2005.

2. £1,178,000 represents the effect of recognising the 3.65% Preference Stock holding as a financial liability and not non-equity shareholder funds (FRS 25).

FRS 26 requires that the fixed asset investments be measured at their fair value which is deemed to be the bid price. Had the Company not elected to takeadvantage of the exemption under paragraph 108D of FRS 26, the effect of revaluing the fixed assets at 31 January 2005 from mid to bid would be to lower the value of the investments by £28,000 to £535,066,994 and subsequently reduce the total net assets of the Company by the same amount.