Company No
28276

THE MERCHANTS TRUST PLC

INTERIM ACCOUNTS

Prepared in accordance with s838 of Companies Act 2006
for the period from 01 February 2010 to 31 July 2010

The Merchants Trust PLC

INCOME STATEMENT
for the period from 01 February 2010 to 31 July 2010

	Notes	2010 Revenue Return £	2010 Capital Return £	2010 Total Return £
Net gains on investments held at fair value	6	-	7,472,015	7,472,015
Income from Investments				
UK franked investment income		13,561,555	-	13,561,555
UK unfranked investment income		127,075	-	127,075
Overseas dividends		363,397	-	363,397
Other Income				
Premiums on derivative contracts		902,373	-	902,373
Underwriting commision		109,970	-	109,970
		15,064,370	7,472,015	22,536,385
Investment management fee	1	(309,152)	(574,142)	(883,294)
Administration expenses	2	(345,711)	(1,542)	(347,253)
Net Return before Finance Costs and Taxation		14,409,507	6,896,331	21,305,838
Finance costs interest payable and similar charges	3	(1,680,408)	(3,080,830)	(4,761,238)
Net Return on Ordinary Activities before Taxation		12,729,099	3,815,501	16,544,600
Taxation		-	-	-
Net Return attributable to Ordinary Shareholders		12,729,099	3,815,501	16,544,600
Return per Ordinary Share	5	12 33p	3 70p	16 03p

The Notes on pages 4 to 8 form part of these accounts

The Merchants Trust PLC

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
for the period from 01 February 2010 to 31 July 2010

	Called up Share Capital £	Share Premium Account £	Capital Redemption Reserve £	Capital Reserve £	Revenue Reserve £	Total £
Net assets at 31 January 2010	25,803,366	8,523,195	292,853	324,056,586	26,071,214	384,747,214
Revenue Return	-	-	-	-	12,729,099	12,729,099
Dividends on Ordinary Shares	-	-	-	-	(11,663,119)	(11,663,119)
Capital Return	-	-	-	3,815,501 00	-	3,815,501
Net assets at 31 July 2010	25,803,366	8,523,195	292,853	327,872,087	27,137,194	389,628,695

The Notes on pages 4 to 8 form part of these accounts

The Merchants Trust PLC

BALANCE SHEET
as at 31 July 2010

	Notes	2010 £	2010 £
Fixed Assets			
Investments held at fair value through profit or loss	6		481,165,313
Current Assets			
Debtors	7	4,841,916	
Cash at bank		19,443,392	
		24,285,308	
Creditors - Amounts falling due within one year			
Derivative financial instruments	6	(436,385)	
Other Creditors	7	(1,966,913)	
		(2,403,298)	
Net Current Assets			21,882,010
Total Assets less Current Liabilities			503,047,323
Creditors - Amounts falling due after more than one year	7		(113,418,628)
Total Net Assets			389,628,695
Capital and Reserves			
Called up Share Capital	8		25,803,366
Share Premium Account			8,523,195
Capital Redemption Reserve			292,853
Capital Reserve	9		327,872,087
Revenue Reserve	10		27,137,194
Equity Shareholders' Funds			389,628,695
Net Asset value per Ordinary Share			377 5p

Approved by the Board of Directors on 17 February 2011 and signed on its behalf by

R. A. BARFIELD

The Notes on pages 4 to 8 form part of these accounts

STATEMENT OF ACCOUNTING POLICIES
for the period from 01 February 2010 to 31 July 2010

i) The financial statements have been prepared under the historical cost convention, modified to include the revaluation of investments, and in accordance with the United Kingdom law, United Kingdom Generally Accepted Accounting Practice (UK GAAP) and the Statement of Recommended Practice – 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (SORP) issued in January 2009 by the Association of Investment Companies The financial statements have been prepared under the requirements of s838 of the Companies Act 2006

In order better to reflect the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been presented alongside the Income Statement In accordance with the Company's status as a UK investment company under sections 833 and 834 of the Companies Act 2006, net capital returns may not be distributed by way of dividend

ii) Revenue - Dividends on equity shares are accounted for on an ex-dividend basis UK dividends are shown net of any tax credits

Special dividends are recognised on an ex-dividend basis and treated as a capital or revenue item depending on the facts and circumstances of each dividend

Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, the equivalent 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

Deposit interest receivable and stock lending fees are accounted for an accruals basis Commissions in respect of underwriting are recognised when the underwritten issue closes and are generally recognised within the Income Statement as revenue Where, however, the Company is required to take up a proportion of the shares underwritten, the same proportion of the commission received is recognised as capital, with the balance recognised as revenue

iii) Investment management fee and administrative expenses - The investment management fee is calculated at 0 35% per annum of the value of the Company's assets calculated monthly (after deduction of current liabilities, short term loans under one year and any funds within the portfolio managed by RCM) The investment management fee is charged to capital and revenue in the ratio 65 35 to reflect the Company's investment policy and prospective split of capital and revenue returns Other administrative expenses are charged in full to revenue, except transaction charges which are charged to capital All expenses are recognised on an accrual basis

iv) Valuation – As the Company's business is investing in financial assets with a view to profiting from their total return in the form of increases in fair value, investments are designated as held at fair value through profit or loss on initial recognition in accordance with FRS 26 'Financial Instruments Recognition and Measurement' The Company manages and evaluates the performance of these investments on a fair value basis in accordance with its investment strategy, and information about the investments is provided on this basis to the Board of Directors

Investments held at fair value through profit and loss are initially recognised at fair value After initial recognition, these continue to be measured at fair value, which for quoted investments is either the bid price or the last traded price depending on the convention of the exchange on which the investment is listed Investment holding gains (losses) reflect differences between fair value and book cost Net gains and losses arising on sale of investments are recognised in the capital column of the Income Statement and are taken to the Capital Reserve

v) Derivatives - Options are purchased or written over securities held in the portfolio for either generating or protecting capital returns or generating or maintaining revenue returns Premiums received on written options held to generate or maintain revenue returns, are amortised to revenue over the period to maturity Where the purpose of the option is the maintenance of capital the premium is treated as a capital item The value of the option is subsequently marked to market to reflect the fair value of the option based on traded prices When an option is closed out the gain or loss is accounted for as capital Unamortised premiums form part of the gain or loss Gains or losses on exercised options are accounted for as capital

vi) Finance costs – In accordance with the Financial Reporting Standard 25 'Financial Instruments Disclosure and Presentation' and FRS 26 'Financial Instruments Recognition and Measurement', long term borrowings are stated at the amount of net proceeds on issue plus accrued finance costs to date The finance costs of such borrowings, are calculated over the term of the debt on the effective interest rate basis

Where debt is issued at a premium, the premium is amortised over the term of the debt on the effective interest rate basis

Finance costs net of amortised premiums are charged to capital and revenue in the ratio 65 35 to reflect the Board's investment policy and prospective split of capital and revenue returns

Dividends payable on the 3 65% Cumulative Preference Stock are classified as an interest expense and are charged in full to revenue

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 on the marginal basis using the Company's effective rate of Corporation tax for the accounting period

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax or a right to pay less tax in the future have occurred Timing differences are differences between the Company's taxable profits and its results as stated in the accounts

A deferred tax asset is recognised when it is more likely than not that the asset will be recoverable Deferred tax is measured on a non-discounted basis at the rate of Corporation tax that is expected to apply when the timing differences are expected to reverse

viii) Foreign currency – In accordance with FRS 23 'The Effect of changes in Foreign Currency Exchanges Rates', the Company is required to nominate a functional currency, being the currency in which the Company predominately operates The functional currency is pound sterling, reflecting the primary economic environment in which the Company operates 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

ix) Dividends – In accordance with FRS 21 'Events After the Balance Sheet Date', the final dividend payable on Ordinary Shares is recognised as a liability when approved by shareholders Interim dividends are recognised only when paid

x) Shares issued - Share Capital is increased by the nominal value of shares issued The proceeds net of expenses are allocated to the Share Premium Account

xi) Shares repurchased and subsequently cancelled – Share Capital is reduced by the nominal value of the shares repurchased, and the Capital Redemption Reserve is correspondingly increased in accordance with Section 733 Companies Act 2006 The full cost of the repurchase is charged to the realised Capital Reserve

1 Investment Management Fee	2010 £ Revenue	2010 £ Capital	2010 £ Total
Investment management fee	309,152	574,142	883,294

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

2 Administration Expenses	2010 £
Auditors' remuneration	14,484
Directors' fees	52,579
Marketing and Share Plan	111,817
Other administrative expenses	166,831
	345,711

Transaction charges of £1,542 were charged to capital

3 Finance Costs Interest Payable and Similar Charges	2010 £ Revenue	2010 £ Capital	2010 £ Total
On Stepped Rate Interest Loan repayable after more than five years	680,813	1,264,366	1,945,179
On Fixed Rate Interest Loan repayable after more than five years	655,838	1,217,985	1,873,823
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	312,633	580,604	893,237
On 3 65 % Preference Stock repayable after more than five years	21,499	-	21,499
	1,680,408	3,080,830	4,761,238

4 Dividends on Ordinary Shares	2010 £
Dividends on Ordinary shares of 25p -	
2010 - Third interim dividend 5 60p paid 19 February 2010	5,779,954
2010 - Final dividend 5 70p paid 14 May 2010	5,883,165
	11,663,119

Dividends payable at the period end are not recognised as a liability under FRS 21 ' Events After the Balance Sheet Date' Details of these dividends are set out below

	2010 £
2011 - First interim dividend 5 70p payable 20 August 2010	5,883,167
2011 - Second interim dividend 5 70p payable 11 November 2010	5,883,167
	11,766,334

The second interim dividend noted above is based on the number of shares at period end However, the dividend subsequently paid will be based on the number of shares in issue on the record date and will reflect any purchases or cancellations of shares by the Company settled subsequent to the period end

5 Return per Ordinary Share

	2010 £ Revenue	2010 £ Capital	2010 £ Total
Return attributable to Ordinary Shareholders	12,729,099	3,815,501	16,544,600
Return per Ordinary Share	12 33p	3 70p	16 03p

The return per Ordinary Share is based on a weighted average number of shares in issue during the period of 103,213,464 shares

6 Investments

	2010 £
Listed on The London Stock Exchange at market valuation	481,137,082
Unlisted at fair value	28,231
Fixed asset investments	481,165,313
Derivative financial instruments - written call options	(436,385)
Total investments	480,728,928
Market value of investments brought forward	488,295,791
Investment holding losses brought forward	693,357
Cost of investments brought forward	488,989,148
Additions at cost	49,536,211
Disposals at cost	(55,601,050)
Cost of investments at 31 July 2010	482,924,309
Investment holding losses at 31 July 2010	(2,090,902)
Derivative holding losses at 31 July 2010	(104,479)
Market value of investments held at 31 July 2010	480,728,928
Net gains on investments	
Net gains on sales of investments based on historical costs	9,230,755
Net losses on derivative financial instruments	(256,717)
Net gains on sales of investments based on carrying value at previous balance sheet date	8,974,038
Net investment holding losses arising in the period	(1,614,267)
Net derivative holding gains arising in the period	112,244
Net gains on investments	7,472,015

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	"A" shares	39 2	
First Debenture Finance PLC	"B" shares	59 2	49 2
First Debenture Finance PLC	"C" shares	45 6	
First Debenture Finance PLC	"D" shares	53 3	
Fintrust Debenture PLC	Ordinary	50 0	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 have been accounted for as investments at cost

7 Current Assets and Creditors

	2010
Debtors -	£
Sales for future settlement	1,261,418
Accrued income	3,558,793
Other debtors	21,705
	4,841,916
Creditors - amounts falling due within one year	
Interest on borrowings	(1,319,266)
Other creditors	(647,647)
	(1,966,913)
Creditors - amounts falling due after more than one year	
Stepped Rate Interest Loan (see (i) below)	(36,190,360)
Fixed Rate Interest Loan (see (ii) below)	(45,546,775)
5 875% Secured Bonds 2029 (see (iii) below)	(29,128,493)
4% Perpetual Debenture Stock (see (iv) below)	(1,375,000)
3 65% Cumulative Preference Stock Units of £1 (see (v) below)	(1,178,000)
	(113,418,628)

(i) The effective interest rate on the Stepped Rate Interest Loan over its terms is 11 28% per annum

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% These amounts are repayable on 2 January 2018 exclusive of any redemption expenses, together with a premium of £8,366,513

The initial interest rate in 1987 on the Loan Notes and Bonds was 7 16% per annum This increased annually by 7 5% compound until January 1998 when it reached its current rate of 14 75% However, the combined effect of this interest charge and the accrual of the premium referred to above results in an effective interest rate of 11 28% per annum Interest is payable in January and July each year

Interest on the Loan Notes is variable in accordance with the terms of the agreement with the lender, First Debenture Finance PLC ('FDF')

The Company has guaranteed 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 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 accounting treatment adopted in respect of the stepped rate interest and redemption premiums is set out in the Statement of Accounting Policies

(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 in May and 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 noted in (i) above

The original loan from Fintrust is stated at net proceeds (being the principal amount of £30,000,000 less issue costs of £141,053) plus accrued finance costs

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 of £30,000,000 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 as set out in the Statement of Accounting Policies

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 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

(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 Interest is repayable in arrears by equal half yearly instalments in May and November

(v) The 3 65% Cumulative Preference Stock is recognised as a creditor due after more than one year under the provisions of FRS25 'Financial Instruments Disclosure and Presentation' The right of the Stock to receive payments is 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 1 August and 1 February

8 Called up Share Capital

	2010 £
Allotted and fully paid	
103,213,464 Ordinary Shares of 25p	25,803,366

9 Capital Reserves

	2010 Gains on sales of Investments £	2010 Investment holding gains (losses) £	2010 Total £
Balance brought forward at 1 February 2010	324,749,943	(693,357)	324,056,586
Net gains on sales of fixed asset investments	9,230,755	-	9,230,755
Net losses on derivative financial instruments	(256,717)	-	(256,717)
Net movement in fixed asset investment holding losses	-	(1,614,267)	(1,614,267)
Net movement in derivative holding gains	-	112,244	112,244
Investment management fee (Note 1)	(574,142)	-	(574,142)
Finance costs interest payable and similar charges (Note 3)	(3,080,830)	-	(3,080,830)
Other capital charges	(1,542)	-	(1,542)
Balance at 31 July 2010	330,067,467	(2,195,380)	327,872,087

10 Revenue Reserve

	2010 £
Balance at 1 February 2010	26,071,214
Revenue retained for the period	12,729,099
Ordinary dividends paid during the period	(11,663,119)
Balance at 31 July 2010	27,137,194