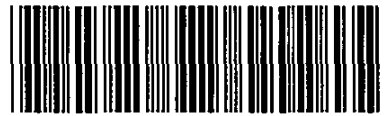


Company No
28276

THE MERCHANTS TRUST PLC
REPORT AND ACCOUNTS (unaudited)
Prepared in accordance with s838 of Companies Act 2006
for the period from 1 February 2011 to 31 July 2011

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The Merchants Trust PLC

INCOME STATEMENT

for the period from 01 February 2011 to 31 July 2011

		2011 Revenue £	2011 Capital £	2011 Total Return £
Net losses on investments held at fair value		-	(3 739 607)	(3 739 607)
Income from Investments				
Dividends from UK investments		13 227 341	-	13 227 341
Dividends from overseas investments		229,120	-	229 120
Other Income				
Income from Denvatives		790 008	-	790 008
		14 246 469	(3 739 607)	10 506 862
Investment management fee	1	(342,578)	(636 217)	(978 795)
Administration expenses	2	(276,712)	(1 287)	(277 999)
Net Return before Finance Costs and Taxation		13 627,179	(4 377 111)	9 250 068
Finance costs interest payable and similar charges	3	(1,665,149)	(3 052 470)	(4 717 619)
Net Return on Ordinary Activities before Taxation		11 962 030	(7,429,581)	4 532,449
Taxation		-	-	-
Net Return on ordinary activities attributable to Ordinary Shareholders		11 962 030	(7 429 581)	4 532 449
Return per Ordinary Share (basic & diluted)	5	11 59p	(7 20)p	4 39

The Notes on pages 6 to 10 form part of these accounts

The Merchants Trust PLC

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
for the period from 01 February 2011 to 31 July 2011

	Called up Share Capital £	Share Premium Account £	Capital Redemption Reserve £	Capital Reserve £	Revenue Reserve £	Total £
Net assets at 31 January 2011	25,803,366	8,523,195	292,853	381,684,696	24,541,906	440,846,016
Revenue Return	-	-	-	-	11,962,030	11,962,030
Dividends on Ordinary Shares	-	-	-	-	(11,766,334)	(11,766,334)
Capital Return	-	-	-	(7,429,581)	-	(7,429,581)
Net assets at 31 July 2011	25,803,366	8,523,195	292,853	374,255,115	24,737,602	433,612,131

The Notes on pages 6 to 10 form part of these accounts

The Merchants Trust PLC

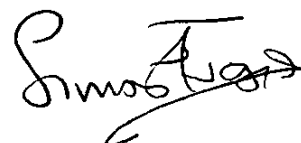
BALANCE SHEET
as at 31 July 2011

		2011	2011
		£	£
Fixed Assets			
Investments held at fair value through profit or loss	6		537 083 320
Current Assets			
Debtors	7	2 788,806	
Cash at bank		<u>7 678 695</u>	
		10 467 501	
Creditors			
Derivative financial instruments		(294 850)	
Other creditors	7	<u>(2 540,712)</u>	
		(2 835,562)	
Net Current Assets			7 631 939
Total Assets less Current Liabilities			<u>544 715 259</u>
Creditors - Amounts falling due after more than one year	7		(111 103 128)
Total Net Assets			<u>433 612 131</u>
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		374 255 115
Revenue Reserve	10		24 737 602
Equity Shareholders' Funds			<u>433 612,131</u>
Net Asset value per Ordinary Share			420 1p

Signed on behalf of the Board of Directors by
Simon Fraser

Dated²¹ February 2012

The Notes on pages 6 to 10 form part of these accounts



Statement of Accounting Policies

for the period ended 31 July 2011

- 1 The financial statements have been prepared under the historical cost basis, except for the measurement at fair value of investments and derivative financial instruments and in accordance with the United Kingdom Law and 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

In order to better 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 in accordance with the Company's status as a UK investment company under section 833 and 834 of the Companies Act 2006 net capital returns may not be distributed by way of dividend

The accounting policies adopted in preparing the current year's financial statements are consistent with those of previous years

The Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements as the assets of the Company consist mainly of securities which are readily realisable and significantly exceed liabilities. Accordingly the Directors believe that the Company has adequate financial resources to continue in operational existence for the foreseeable future

- 2 Revenue – Dividends on equity shares are accounted for on an ex-dividend basis UK dividends are shown net of 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 stocklending fees are accounted for on 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

- 3 Investment management fees and administrative expenses – The investment management fee is calculated on the basis set out in Note 2 to the financial statements and is 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. Other administrative expenses are charged in full to revenue, except custodian handling charges on investment transactions which are charged to capital. All expenses are recognised on an accrual basis

- 4 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, financial assets are designated as held at fair value through profit or loss 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 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. Gains or losses on investments are recognised in the capital column of the Income Statement. Purchases and sales of financial assets are recognised on the trade date, being the date which the Company commits to purchase or sell the assets

- 5 Derivatives - Options may be purchased or written over securities held in the portfolio for generating or protecting capital returns or for generating or maintaining revenue returns

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 or exercised the gain or loss is accounted for as capital

Where the purpose of the option is the generation of income, the premium is treated as a revenue item. The value of the option is subsequently marked to market to reflect the fair value of the option based on traded prices. Premiums received on written options are amortised to revenue over the period to expiry. Unamortised premiums on exercise date are taken to capital

- 6 Finance costs – In accordance with the FRS 25 'Financial Instruments: Disclosure and Presentation' and FRS 26 'Financial Instruments: Recognition and Measurement' long term borrowings are stated at the amortised cost being the amount of net proceeds on issue plus accrued finance costs to date. Finance costs 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

The Merchants Trust PLC

- 7 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 financial statements.

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.

- 8 Foreign currency – In accordance with FRS 23 The Effect of changes in Foreign Currency Exchange Rates the Company is required to nominate a functional currency being the currency in which the Company predominately operates. The functional and reporting currency is 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 monetary 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 the capital column of the income statement and taken to the Capital Reserve.
- 9 Dividends – In accordance with FRS 21 Events After the Balance Sheet Date the final dividend proposed on Ordinary Shares is recognised as a liability when approved by shareholders. Interim dividends are recognised only when paid.
- 10 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 Capital Reserve.
- 11 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.

NOTES TO THE ACCOUNTS
for the period from 01 February 2011 to 31 July 2011

1 Investment Management Fee	2011	2011	2011
	£	£	£
	Revenue	Capital	Total
Investment management fee	342 578	636 217	978,795

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

2 Administration Expenses	2011
	£
Auditors remuneration	18,864
Directors' fees	51 280
Marketing and Share Plan	51 905
Other administrative expenses	154 663
	<u>276,712</u>

Transaction charges of £1,287 were charged to capital

3 Finance Costs Interest Payable and Similar Charges	2011	2011	2011
	£	£	£
	Revenue	Capital	Total
On Stepped Rate Interest Loan	666 295	1 237 405	1 903 700
repayable after more than five years			
On Fixed Rate Interest Loans	655 030	1 216 483	1 871 513
repayable after more than five years			
On 4% Perpetual Debenture Stock	9 625	17 875	27 500
repayable after more than five years			
On 5.875 % Secured Bonds 2029	312 689	580,707	893,396
repayable after more than five years			
On 3.65 % Preference Stock	21 499	-	21 499
repayable after more than five years			
On sterling overdraft	11	-	11
	<u>1,665,149</u>	<u>3 052,470</u>	<u>4 717 619</u>

The Merchants Trust PLC

4 Dividends on Ordinary Shares

2011

£

Dividends on Ordinary shares of 25p -

2011 - Third interim dividend 5 70p paid 18 February 2011

5 883,167

2011 - Final dividend 5 70p paid 13 May 2011

5 883 167

11 766 334

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

2011

£

2011 - First interim dividend 5 70p payable 17 August 2011

5 883 167

2011 - Second interim dividend 5 70p payable 11 November 2011

5 883 167

11,766,334

The second interim dividend accrued is based on the number of shares in issue at the year end. However the dividend payable will be based on the number of shares in issue on the record date and will reflect any purchases and cancellations of shares by the Company settled subsequent to the period end.

5 Return per Ordinary Share

	2011 £	2011 £	2011 £
	Revenue	Capital	Total
Return after taxation attributable to Ordinary Shareholders	<u>11 962,030</u>	<u>(7,429,581)</u>	<u>4 532 449</u>
Return per Ordinary Share	<u>11 59p</u>	<u>(7 20)p</u>	<u>4 39p</u>

The weighted average number of shares in issue during the period was 103 213 464

The Merchants Trust PLC

2011

6 Fixed Asset Investments

£

Listed on The London Stock Exchange at market valuation	537 055 351
Unlisted at fair value	27 969
Total fixed asset investments	<u>537,083,320</u>
Derivative financial instruments - written call options	(294 850)
Total investments	<u>536,788 470</u>
Market value of investments brought forward	542 931 529
Investment holding gains brought forward	(38 259 082)
Derivative holding losses brought forward	155 017
Cost of investments brought forward	<u>504 827 464</u>
Additions at cost	61 110 321
Disposals at cost	<u>(54,139 590)</u>
Cost of investments at 31 July 2011	511,798 195
Investment holding gains as at 31 July 2011	25,072 983
Derivative holding losses as at 31 July 2011	(82 708)
Market value of investments held at 31 July 2011	<u>536 788 470</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 (FDF)	"A" shares	39.2	
First Debenture Finance PLC (FDF)	"B" shares	59.2	49.2
First Debenture Finance PLC (FDF)	"C" shares	45.6	
First Debenture Finance PLC (FDF)	"D" shares	53.3	
Fintrust Debenture PLC (Fintrust)	Ordinary	50.0	50.0

In the opinion of the Directors the Company is not in a position to exert significant influence over the financial operating policies of FDF or Fintrust either through voting rights or through agreement with those companies' other shareholders due to provisions in FDF and Fintrusts Articles of Association and in certain contracts between the Company and each of FDF & Fintrust Accordingly, FDF & Fintrust are not considered to be associate undertakings as per FRS9 and are therefore included in the balance at the Director's valuation FDF & Fintrust are the lenders of the Company's Stepped Rate Interest Loan and Fixed Rate Interest Loan, as detailed in note 7 Apart from finance costs there were no other transactions between FDF, Fintrust and the Company during the period

The Merchants Trust PLC
7 Current Assets and Creditors

	2011
	£
Debtors -	
Accrued income	2 531 900
Other debtors	21 207
Sales for future settlement	<u>235 699</u>
	<u>2 788 806</u>
Creditors - amounts falling due within one year	
Interest on borrowings	(1 304 560)
Other creditors	<u>(1 236 152)</u>
	<u>(2 540 712)</u>
Creditors - amounts falling due after more than one year	
Stepped Rate Interest Loan (see (i) below)	(34 034,110)
Fixed Rate Interest Loan (see (ii) below)	(45 363 124)
5.875% Secured Bonds 2029 (see (iii) below)	(29 152 894)
4% Perpetual Debenture Stock (see (iv) below)	(1 375,000)
3.65% Cumulative Preference Stock (see (v) below)	(1,178 000)
	<u>(111,103,128)</u>

(i) The Stepped Rate Interest Loan of £34 034 110 (2010 - £36,190 360) comprises adjustable Stepped Rate Interest Loan Notes of £5 133,520 Stepped Rate Interest Bonds of £20,534 079 and a provision in respect of a deferred tax liability accruing to First Debenture Finance PLC (FDF) of £nil (2010- £2 118 789) issued in 1987 at 97.4%. The Loan Notes and Bonds were issued in 1987 at 97.4% and are repayable on 2 January 2018 together with a premium of £8,366 511

The initial interest rate 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%. This stepped interest rate when combined with the accrual of the premium results in an effective interest rate of 11.28% per annum.

Interest on the Loan Notes and Bonds 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 FDF.

FDF has a liability to repay principal and interest on its £52.2 million of 11.125% Severally Guaranteed Debenture Stock 2018. The Company has guaranteed the repayment of principal and interest on £34.0 million to the Debenture Stockholders in proportion to the relative principal amounts raised in respect of the Loan Notes and Bonds. 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.

(ii) The Fixed Rate Interest Loan of £42,000 000 is due to Fintrust Debenture PLC (Fintrust'). It comprises a principal amount of £30,000 000 taken out in 1993, and a further amount of £12 000 000 assumed in 1998 from another of Fintrust's borrowers. This loan is repayable on 20 May 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 the loan the Company has granted a floating charge over its assets in favour of the lender. This charge ranks pari passu with the floating charge noted in (i) above.

The principal of £30 000,000 taken out in 1993 is stated at £29,898,803 (2010- £29,894 525) being the net proceeds of £29 858 947 plus accrued finance costs of £39 856 (2010 - £35 578). The effective interest rate of this portion of the loan is 9.51%.

In addition to assuming the additional borrowing of £12 000 000 in 1998 at the same time the Company also received a premium of £5 286 564 in order that the finance costs on this new borrowing was comparable to existing interest rates. This premium is being amortised over the remaining life of the loan. At 31 July 2011, the loan is stated at £15 464 321 (2010 - £15 652 249) being the principal amount of £12 000,000 plus unamortised premium of £3,464,321 (2010 - £3,652 249). The effective interest rate of this portion of the loan is 6.00%.

7 Current Assets and Creditors (continued)

(iii) The £30,000,000 5.875% Secured Bonds is stated at £29,152,894 (2010 - £29,128,493) being the net proceeds of £28,942,800 plus accrued finance costs of £210,094 (2010 - £185,693). The Bonds are repayable on 20 December 2029, and carry interest at 5.875% per annum on the principal amount. Interest is payable in June and December each year. The effective interest rate of this loan is 6.23% per annum.

As security for this loan, the Company has granted a floating charge over its assets ranking *pari passu* with the floating charges referred to in (i) and (ii) above.

(iv) The 4% Perpetual Debenture Stock of £1,375,000 is secured by a floating charge on the assets of the Company which ranks prior to any other floating charge. Interest is payable 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 Preference 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 on 1 August and 1 February each year.

8 Called up Share Capital

	2011
	£
Allotted and fully paid	
103,213,464 Ordinary Shares of 25p (2010 - 103,213,464)	<u>25,803,366</u>

9 Capital Reserves

	2011
	£
Balance brought forward at 1 February 2011	381,684,696
Net gains on realisation of investments	(3,739,607)
Investment management fee (Note 1)	(636,217)
Finance costs, interest payable and similar charges (Note 3)	(3,052,470)
Other capital charges	<u>(1,287)</u>
Balance at 31 July 2011	<u>374,255,115</u>

10 Revenue Reserve

	2011
	£
Balance at 1 February 2011	24,541,906
Revenue retained for the period	11,962,030
Ordinary dividends paid during the period	<u>(11,766,334)</u>
Balance at 31 July 2011	<u>24,737,602</u>