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 2016 to 31 July 2016

The Merchants Trust PLC

INCOME STATEMENT
for the period from 1 February 2016 to 31 July 2016

		2016 Revenue £	2016 Capital £	2016 Total Return £
Net gains on investments held at fair value		-	19,474,931	19,474,931
Income from Investments				
Dividends from UK investments		17,352,738	-	17,352,738
Dividends from overseas investments		315,482	-	315,482
Other Income				
Underwriting commission		9,535	-	9,535
Bank interest		6,257		6,257
Income from Derivatives		419,986	-	419,986
		18,103,998	19,474,931	37,578,929
Investment management fee	1	(374,151)	(694,851)	(1,069,002)
Administration expenses	2	(435,024)	(743)	(435,767)
Net profit before finance costs and taxation		17,294,823	18,779,337	36,074,160
Finance costs: interest payable and similar expenses	3	(1,664,465)	(3,051,221)	(4,715,686)
Net profit on ordinary activities before taxation		15,630,358	15,728,116	31,358,474
Taxation		-	-	-
Net profit attributable to ordinary shareholders		15,630,358	15,728,116	31,358,474
Net earnings per ordinary share (basic & diluted)		14.38p	14.46p	28.84p

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

The Merchants Trust PLC

STATEMENT OF CHANGES IN EQUITY
for the period from 1 February 2016 to 31 July 2016

	Called up Share Capital £	Share Premium Account £	Capital Redemption Reserve £	Capital Reserve £	Revenue Reserve £	Total £
Net assets at 1 February 2016	27,182,116	33,717,572	292,853	412,304,076	24,611,248	498,107,865
Revenue profit	-	-	-	-	15,630,358	15,630,358
Dividends on ordinary shares	-	-	-	-	(13,047,416)	(13,047,416)
Capital profit	-	-	-	15,728,116	-	15,728,116
Net assets at 31 July 2016	27,182,116	33,717,572	292,853	428,032,192	27,194,190	516,418,923

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

The Merchants Trust PLC

BALANCE SHEET
as at 31 July 2016

	Note	2016 £	2016 £
Fixed Assets			
Investments at fair value through profit or loss	6		608,749,397
Current Assets			
Other receivables	7	1,348,114	
Cash and cash equivalents		17,249,743	
Collateral pledged with brokers		1,844,132	
		20,441,989	
Creditors			
Other payables	7	(2,094,598)	
Derivative financial instruments		(515,073)	
		(2,609,671)	
Net current assets			17,832,318
Total assets less current liabilities			626,581,715
Creditors - amounts falling due after one year	7		(110,162,792)
Total net assets			516,418,923
Capital and Reserves			
Called up Share Capital	8		27,182,116
Share Premium Account			33,717,572
Capital Redemption Reserve			292,853
Capital Reserve	9		428,032,192
Revenue Reserve	10		27,194,190
Equity Shareholders' funds			516,418,923
Net asset value per ordinary share			475.0p

Signed on 13 February 2017 on behalf of the board by

Simon Fraser

Simon Fraser, Chairman

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

The Merchants Trust PLC

Statement of Accounting Policies

for the period ended 31 July 2016

1 The Company presents its results and positions under 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102), which forms part of revised Generally Accepted Accounting Practice ('New UK GAAP') issued by the Financial Reporting Council.The financial statements and net asset value have been prepared in accordance with FRS 102 using the same policies as in the preceding annual accounts.

The condensed set of financial statements has been prepared on a going concern basis in accordance with FRS 102, 'Interim Financial Reporting' (FRS 104) issued by the FRC in March 2015 and the revised Statement of Recommended Practice – 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (SORP) issued by the Association of Investment Companies (AIC) in November 2014. They have also been prepared on the assumption that approval as an investment trust will continue to be granted.

The accounting policies applied for the condensed set of financial statements with regard to measurement and classification are as set out in the company's Annual Report for the year ended 31 January 2016. This is reflective of the Company's application of Sections 11 and 12 of FRS 102, in relation to financial instruments, in full. References to prior, individual Financial Reporting Statements (FRS) should now be taken to reference FRS 102.

2 Income – franked, unfranked and overseas dividends received 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. The Board review special dividends and their treatment at each meeting.

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 as per the management and administration agreement. This provides for a management fee based on 0.35% per annum of the value of the asets after deduction of current liabilities, short term loans under one year and other funds managed by Allianz GI 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 102 Section 11 'Basic Financial Instruments and Section 12 'Other Financial Instruments'. 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. 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. Unlisted investments have unobservable measurable inputs into making an assessment of fair value and are therefore subject to significant judgement, considering factors specific to the asset or liability.

Unlisted investments are values by the Directors based upon the latest dealing prices, stockbrokers' valuations, net asset values, earnings and other known accounting information in accordance with the principles set out by the International Private Equity and Venture Capital Valuation Guidelines issued in December 2015. After initial recognition unquoted stocks are valued by the board on an annual basis.

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 102 Section 11: 'Basic Financial Instruments' and Section 12 'Other Financial Instruments', 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.

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 102 Section 30: 'Foreign Currency Translation', 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 102 Section 32 ' Events After the End of the Reporting Period', 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. Proceeds received from the sale of shares held in treasury are treated as realised profits in accordance with Section 731 of the Companies Act 2006. Proceeds equivalent to the original cost, calculated by applying a weighted average price, are credited to the capital reserve to replenish the profits available for distribution; proceeds in excess of the original cost are credited to the share premium account.

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 1 February 2016 to 31 July 2016

1 Investment Management Fee

	2016 £ Revenue	2016 £ Capital	2016 £ Total
Investment management fee	374,151	694,851	1,069,002

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

2 Administration Expenses

	2016 £
Auditors remuneration	21,302
Directors' fees	68,750
Marketing costs	138,477
Other administrative expenses	206,495
	435,024

Transaction charges of £743 were charged to capital.

3 Finance Costs: Interest Payable and Similar Charges

	2016 £ Revenue	2016 £ Capital	2016 £ Total
On Stepped Rate Interest Loan repayable in one to five years	672,295	1,248,548	1,920,843
On Fixed Rate Interest Loans repayable after more than five years	646,360	1,200,382	1,846,742
On 4% Perpetual Debenture Stock repayable after more than five years	9,665	17,949	27,614
On 5.875 % Secured Bonds 2029 repayable after more than five years	314,646	584,342	898,988
On 3.65 % Preference Stock repayable after more than five years	21,499	-	21,499
	1,664,465	3,051,221	4,715,686

4 Dividends on Ordinary Shares

Dividends paid on ordinary shares in respect of earnings are as follows:

	2016 £
2016 - Third interim dividend 6.00p paid 24 February 2016	6,523,708
2016 - Final dividend 6.00p paid 26 May 2016	6,523,708
	13,047,416

In accordance with FRS102 Section 32 ' Events After the End of the Reporting Period', dividends payable at the period end have not been recognised as a liability.
Details of these dividends are set out below.

	2016 £
2017 - First interim dividend 6.00p payable 12 August 2016	6,523,708
2017 - Second interim dividend 6.00p payable 10 November 2016	6,523,708
	13,047,416

The second interim dividend accrued is based on the number of shares in issue at the period 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 Net earnings per Ordinary Share

	2016 £ Revenue	2016 £ Capital	2016 £ Total
Profit after taxation attributable to Ordinary Shareholders	15,630,358	15,728,116	31,358,474
Net earnings per Ordinary Share	14.38p	14.46p	28.84p

The weighted average number of shares in issue during the period was 108,728,464.

6 Fixed Asset Investments

	2016 £
Listed on The London Stock Exchange at market valuation	608,721,428
Unlisted at fair value	27,969
Total fixed asset investments	608,749,397
Derivative financial instruments - written call options	(515,073)
Total Investments	608,234,324

Market value of investments brought forward	603,155,023
Investment holding losses brought forward	14,074,117
Derivative holding losses brought forward	70,268
Cost of investments brought forward	617,299,408
Additions at cost	51,469,373
Disposals at cost	(56,079,042)
Cost of investments at 31 July 2016	612,689,739
Investment holding losses as at 31 July 2016	(4,044,785)
Derivative holding losses as at 31 July 2016	(410,630)
Market value of investments held at 31 July 2016	608,234,324

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	% Equity
First Debenture Finance PLC (FDF)	"A" shares	50.0
	"B" shares	50.0
	"C" shares	50.0
	"D" shares	50.0
Fintrust Debenture PLC (Fintrust)	Ordinary Shares	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's and Fintrust's Articles of Association and in certain contracts between the company and each of FDF and Fintrust. Accordingly, FDF and Fintrust are not considered to be Associate Undertakings as per FRS 102 Section 14 and are therefore included in the balance sheet at the director's valuation. FDF and Fintrust are the lenders of the company's Stepped Rate Interest Loan and Fixed Rate Interest Loan, as detailed in Notes 7. Apart from the finance costs, there were no other transactions between FDF, Fintrust and the company during the period.

7 Other Receivables and Other Payables

	2016
Other receivables -	£
Accrued income	1,328,406
Prepayments	19,708
	1,348,114
Other payables	
Interest on borrowings	(1,304,057)
Other payables	(769,751)
Purchases for future settlement	(20,790)
	(2,094,598)
Creditors - amounts falling due after more than one year	
Stepped Rate Interest Loan (see (i) below)	(34,037,875)
Fixed Rate Interest Loan (see (ii) below)	(44,272,186)
5.875% Secured Bonds 2029 (see (iii) below)	(29,299,731)
4% Perpetual Debenture Stock (see (iv) below)	(1,375,000)
3.65% Cumulative Preference Stock (see (v) below)	(1,178,000)
	(110,162,792)

(i)The Stepped Rate Interest Loan of £34,034,109 (2015 - £34,034,639) comprises adjustable Stepped Rate Interest Loan Notes of £5,133,520, Stepped Rate Interest Bonds of £20,534,079. The Loan Notes and Bonds were issued in 1987 at 97.4% and are repayable on 2 January 2018, together with a premium of £8,366,510.

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 its debenture stockholders 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 of FDF's debenture stock. This is in proportion to the principal amounts raised by the company in 1987 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.

(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 £29,927,144 (2015- £29,918,864) being the net proceeds of £29,858,947 plus accrued finance costs of £68,197 (2015 - £59,917). The effective interest rate of this portion of the loan is 9.51%.

In 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 were comparable to existing interest rates. This premium is being amortised over the remaining life of the loan. At 31 July 2016, the loan is stated at £14,568,296 (2015 - £14,345,041), being the principal amount of £12,000,000 plus unamortised premium of £2,718,268 (2015 - £2,345,041). The effective interest rate of this portion of the loan is 6.00%.

7 Other Receivables and Other Payables (continued)

(iii) The £30,000,000 5.875% Secured Bonds is stated at £29,299,731 (2015 - £29,266,142) being the net proceeds of £28,942,800 plus accrued finance costs of £356,931 (2015 - £323,342). 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 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

	2016 £
Allotted and fully paid	
108,728,464 Ordinary Shares of 25p (2015 - 108,728,464)	27,182,116

9 Capital Reserves

	2016 £
Balance brought forward at 1 February 2016	412,304,076
Net gains on realisation of investments	16,745,977
Special dividends	2,728,954
Investment management fee (Note 1)	(694,851)
Finance costs: interest payable and similar charges (Note 3)	(3,051,221)
Other capital charges	(743)
Balance at 31 July 2016	428,032,192

10 Revenue Reserve

	2016 £
Balance brought forward at 1 February 2016	24,611,248
Revenue retained for the period	15,630,358
Ordinary dividends paid during the period	(13,047,416)
Balance at 31 July 2016	27,194,190