The Merchants Trust PLC

Half-yearly financial report for the six months ended 31 July 2009

Investment Objective

To provide an above average level of income and income growth together with long-term growth of capital through a policy of investing mainly in higher yielding UK FTSE 100 companies.

Benchmark

The Trust's investment performance is assessed by comparison with other investment trusts within the UK Growth and Income sector. In addition, it is benchmarked against the FTSE 100 Index, reflecting the emphasis within the portfolio, as well as the FTSE 350 Higher Yield Index, reflecting the Trust's higher yield objective.

Trust Performance

Revenue	**For the six months ended 31 July**		
	2009	**2008**	**% change**
Revenue	£13.95m	£18.36m	-24.0
Available for Ordinary Dividend	£12.03m	£15.91m	-24.4
Earnings per Ordinary Share	11.68p	15.47p	-24.5
Dividend declared per Ordinary Share	11.20p	11.10p	+1.0

Assets	**At 31 July 2009**	**At 31 January 2009**	**% change**
Total Net Assets	£338m	£315m	+7.3
Ordinary Share price	296.0p	282.0p	+5.0
Net Asset Value per Ordinary Share	327.3p	306.2p	+6.9
Discount of Ordinary Share price to Net Asset Value	(9.6%)	(7.9%)	n/a
Net Asset Value per Ordinary Share[1]	305.9p	278.5p	+9.8
(Discount) Premium of Ordinary Share price to Net Asset Value[1]	(3.2%)	1.3%	n/a

[1] with debt at market value

FTSE 100 Index (Capital Return)	+11.0%
FTSE 350 Higher Yield Index (Capital Return)	+6.6%

The discount represents the difference between the share price and the Net Asset Value per share, expressed as a percentage of the Net Asset Value per share.

Half-yearly financial report for the six months ended 31 July 2009

Highlights

- Net dividends declared in the first six months of 2009/10 are 11.2p per share, an increase of 1.0%.
- Ordinary shares yield 6.6% at 337p (excluding the special dividend paid in May 2009), compared with 3.5% on the FTSE 100 Index at the close of business on 17 September 2009.
- The Net Asset Value per share rose by 6.9% compared with a rise of 6.6% in the FTSE 350 Higher Yield Index and 11.0% in the FTSE 100 Index. High yielding and defensive shares lagged the market overall.

Interim Management Report

Interim dividends

The Board has declared a second quarterly dividend of 5.6p per share, payable on 12 November 2009 to shareholders on the register at close of business on 9 October 2009. The total distribution declared for the first half of 2009/10 is 11.2p net, an increase of 1.0% when compared with the same period last year. The Board is mindful of the importance shareholders attach to dividends and believes that the revenue reserve should be used to support distributions in periods when a shortfall in revenue occurs. As at 31 July 2009, the Trust's revenue reserve, after deducting the first and second interim dividends, represented 18.0p per share (2008 – 17.6p).

Net Revenue

In the first six months of the current year, net revenue fell by 24.5% to 11.68p per share. Dividend cuts, especially in the financial sector, and portfolio changes were significant factors behind the reduction in revenue over the period. A refund of past VAT from HMRC and underwriting income were positive contributors to revenue over the period.

Net asset value

The net asset value per ordinary share was 327.3p at 31 July 2009. This represents an increase of 6.9% when compared with the equivalent figure at 31 January 2009 - the end of the last financial year. Over the same period the FTSE 100 Index rose by 11.0%, whilst the FTSE 350 Higher Yield Index rose by 6.6% (Capital Return). High yielding and defensive shares lagged the market overall.

Material events and transactions

In the six month period ended 31 July 2009 the following material events and transactions have taken place.

At the Annual General Meeting of the Company held on 12 May 2009, all the resolutions put to shareholders were passed. At the conclusion of the AGM, Joe Scott Plummer retired from the Board.

The third quarterly dividend of 5.6p per share was paid on 20 February 2009 to shareholders on the register on 23 January 2009.

On 29 April 2009 400,000 ordinary shares were issued from a general block listing of shares, bringing the number of ordinary shares of 25p in issue to 103,213,464.

A final dividend of 5.6p per share was paid on 15 May 2009 to shareholders on the register on 17 April 2009. In addition shareholders received a special dividend of 0.5p per ordinary share in respect of the recovery of VAT for the period 1990 to 1996. The total payment for the year ended 31 January 2009 was 22.8p.

There were no buy backs of shares and no related party transactions in the period.

Interim Management Report

Since the period end, Simon Fraser was appointed as a non-executive director on 1 August 2009. Simon is a non-executive director of Barclays PLC, Barclays Bank PLC, Fidelity European Values PLC and Fidelity Japanese Values PLC. Simon spent his career at Fidelity International Limited, where he held a number of positions, including Chief Investment Officer (CIO) from 1999-2005, President of Fidelity International's European and UK Institutional business and latterly President of the Investment Solutions Group. He stepped down from executive responsibilities at the end of 2008.

The first quarterly dividend for the year ending 31 January 2010 of 5.6p per share was paid on 19 August 2009 to shareholders on the register on 17 July 2009.

Principal Risks and Uncertainties

The principal risks and uncertainties facing the Company over the next six months are broadly unchanged from those described in the Annual Financial Report for the year ended 31 January 2009. These are set out in the Business Review beginning on page 17 of that Report, together with commentary on the Board's approach to mitigating the risks and uncertainties, under the following headings: Investment Activity and Strategy; Accounting, Legal and Regulatory; Corporate Governance and Shareholder Relations; Operational; and Financial.

Recent economic data have shown a degree of stabilisation in economic conditions. However, the world's financial system remains fragile and the scale of government debt required to stabilise the financial sector will generate additional uncertainty in markets.

Derivatives Strategy

As mentioned in the last annual report, the directors reviewed the possibility of using exchange traded stock and index options to reduce the volatility of the Trust's net assets. Following this review we initiated a strategy of writing covered call options on a limited number of stocks within the equity portfolio and using the proceeds to buy out of the money put options on the FTSE 100 Index. The call options allow the purchaser the option of buying stock from the Trust at certain pre-agreed prices for a limited period. The put options are essentially an "insurance" policy to provide some downside protection if the market were to fall very significantly.

Prospects

It now seems very likely that a crisis of the financial system has been avoided by the intervention of the authorities to stabilise the banking system and by monetary easing. The key debate has moved on to the profile of economic recovery. It is expected that most western economies will soon emerge from recession, aided by government stimuli and an improvement in the inventory cycle. However, despite the recent reduction in consumer and corporate debt, there remains a very significant debt overhang, especially at the government level. This poses a challenge to the prospects for sustained growth.

In the UK, the Bank of England is likely at some point to raise interest rates from virtually zero. This will pose a challenge to the cashflow of consumers and corporates, giving them a further incentive to reduce spending. An even bigger challenge is at the government level. The UK budget projects a deficit for this fiscal year of 12% of GDP or £175bn. Reducing this deficit in the medium term will require a reduction in government spending and higher taxation. Both of these factors will constrain economic growth which is itself critical to rebuilding tax revenues. Overall therefore UK economic growth in the medium term is likely to be below long term trend levels even if there is a stronger short term recovery in activity. The US and other OECD countries face similar challenges. Whilst the outlook for China and certain emerging markets looks brighter, global growth is likely to be muted for the next few years.

These macroeconomic headwinds are likely to constrain company profits growth. In the short term, however, profits in many cyclical businesses will benefit from their own cost reduction exercises and some bounce back in demand from the very difficult conditions at the turn of the year.

Interim Management Report

The stock market has recovered strongly from its trough earlier in the year as the financial system has been rescued. Valuations in aggregate still seem reasonable from a longer term viewpoint. However the polarisation of the market, with a sharp recovery in cyclical valuations, has reduced the available pool of attractive companies on high yields in these sectors. Conversely, the underperformance of many defensive shares, when coupled with our cautious medium term economic view, makes us even more positive on the relative attractions of businesses that are not overly dependent upon robust economic growth to deliver increasing profits and cashflow. These businesses, in industries such as pharmaceuticals, utilities, oil & gas, telecommunications, defence and food and beverages make up a large part of the portfolio. The polarisation of the market has also allowed new investments in what might be classified as high quality growth stocks trading on unusually low valuations with solid and growing dividend yields.

Although the first half of the year saw significant cuts in UK company dividends, particularly in the financial sector, and further dividend cuts cannot be ruled out, in recent months the prospects for UK corporate dividends appear to have stabilised with a number of the Trust's largest holdings announcing maintained or improved dividends. A fall in sterling has increased receipts from companies declaring dividends in dollars.

Responsibility statement

The Directors confirm to the best of their knowledge that:

- the condensed set of financial statements contained within the half-yearly financial report has been prepared in accordance with the Accounting Standards Board's Statement 'Half-Yearly Financial Reports'; and
- the interim management report includes a fair review of the information required by Disclosure and Transparency Rule 4.2.7 R, of important events that have occurred during the first six months of the financial year, and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- the interim management report includes a fair review of the information concerning related parties transactions as required by Disclosure and Transparency Rule 4.2.8 R.

The half-yearly financial report was approved by the Board on 18 September 2009 and the above responsibility statement was signed on its behalf by the Chairman.

Hugh Stevenson | Chairman
155 Bishopsgate London EC2M 3AD
18 September 2009

Fund Manager's Report

Economic and market background

At the turn of the year the world faced enormous challenges with the credit crunch precipitating a severe contraction in most developed economies. Authorities pursued aggressive stimulus policies including fiscal spending packages, bank credit guarantees, low interest rates and effectively printing money to rescue the financial system and to prevent economies from slipping into depression.

These measures were broadly successful in supporting the banking industry with credit markets returning from a period of severe dislocation to merely stressed levels by the end of the period. Developed world economies started to show signs of stabilisation. Certain industries that had been particularly hard hit, such as automobiles, saw a partial recovery in production levels as earlier shutdowns had exhausted inventories. However other industries remained under pressure. A massive infrastructure investment plan by the Chinese government kept that economy growing rapidly and boosted commodity prices.

In the UK, low interest rates and "quantitative easing" helped prevent consumer spending from collapsing and house prices showed the first signs of bottoming out, albeit on depressed transaction levels. Unemployment picked up, but not at the pace that many forecasters had feared, partly due to the flexibility of the workforce.

Cyclical companies experienced very testing conditions. There were many rescue rights issues early in the year as the pressure on corporate profits threatened banking covenants. Bank finance remained severely constrained [and extremely expensive]. This led to more equity issues later in the period as companies began to focus on the challenge of renewing medium term borrowing facilities during a continuing credit crunch. Many dividends were cut or passed completely as part of this deleveraging process.

The stock market was extremely volatile, falling heavily until early March on concerns about the depth of the recession and fears of a depression. However as investors started to be reassured that there would not be a systemic crisis, and as confidence indicators recovered, the stockmarket staged a strong recovery. The FTSE 100 rose by over 30% from its low point and finished the period with a total return of 14.4%.

Within the stockmarket, there was once again a marked polarisation in sector and stock performances. Cyclical sectors and financials were very strong, whilst many industries less exposed to the economic cycle lagged the market recovery, posting minimal or even negative returns. Notable sector risers included mining up 72%, banks up 50% and general retailers up 54%, with underperformers including oil & gas producers up 2%, pharmaceuticals up 1%, mobile telecommunications unchanged and utilities down 9%. Other clear features included the underperformance of higher yielding companies with the FTSE 350 Higher Yield Index posting a 10.0% return, and the dramatic outperformance of medium sized companies with the more cyclical FTSE 250 Mid Cap Index up 30.3%.

Performance

The equity portfolio posted a positive total return for the six months. Performance was behind the FTSE 100 benchmark but closer to the FTSE 350 Higher Yield Index. It was a particularly difficult period for income investing with underperfomance from many of the big, high yielding "mega-caps" that comprise a large proportion of the Trust's assets.

The positive contributors to performance were dominated by medium and smaller sized companies in the portfolio, including seven of the top ten contributors. An illustration of the extreme market polarisation can be seen in the top three of these which are all businesses involved in the car industry; Inchcape rose 300%, Pendragon was up over 1500% and GKN rose 81%. Ironically all three passed their dividends but we had retained the positions (see below).

Negative contributions to performance included the opportunity cost of not owning or only having modest positions in many leading mining and banking stocks which rose sharply. Also having big positions in large "defensive" industries like pharmaceuticals and utilities held back returns.

Fund Manager's Report

A large number of profitable underwriting opportunities, linked to equity fund raisings, aided the total return for the Trust during the period.

Portfolio Changes

There was a relatively high level of activity in the period. Whilst the overall structure and positioning of the portfolio was not changed markedly, investment activity was influenced by three major market features, namely; high volatility, extreme polarisation and dividend cuts, as explained below. Overall we introduced five new companies into the portfolio and sold five other holdings completely out of a starting list of 43 positions.

Volatility often presents opportunities to make investments or sales at particularly attractive levels. Having not owned any real estate companies for about a year, we took advantage of the sector's weakness to buy Hammerson, a leading UK and French Shopping Centre owner, when it announced a rights issue to strengthen its balance sheet. With prime property yields well over gilt and cash yields we saw a strong argument to move back into a leading stock in the sector. We also bought the media conglomerate WPP at a particularly low valuation. Whilst we share many of the market's concerns about the near term outlook for advertising spending, WPP offers attractive exposure to the growing digital media formats and it is the leading company in its industry in China and many emerging markets. It has strong cashflow and unusually offered an attractive dividend yield.

Another new investment was International Power, an electricity generating company. We believed the shares had been unduly sold down due to concerns over its balance sheet, even though most of its debt is non-recourse. We believe the company's value will recover over time, especially as we expect an improving credit market. Volatility also enabled us to add to many existing holdings after significant weakness with notable examples including BT, IG Group and International Personal Finance.

The two remaining new investments were opportunities presented by the extreme polarisation in the market. Bunzl is the clear market leader in the outsourcing and distribution of many products that are used but not sold by supermarkets, restaurants and other businesses. It has clear scale advantages and an impressive long term growth record. However these positive factors were not being reflected in a market fixated on cyclical recovery and we were able to purchase the shares at an attractive valuation level. The defensive characteristics of Catlin, the largest Lloyds insurance agency, were was also out of favour in the market and we made an investment. We see the company benefitting from firming insurance rates and it offered good value trading below book value with a high yield.

Several additions to existing holdings reflected the polarisation theme, with significant purchases of relatively defensive businesses which were trading at low prices, including for example, BAE Systems, Unilever and Centrica. Elsewhere we also added to positions by taking up rights issues, such as HSBC, Inchcape and GKN.

Dividend cuts have been a notable feature of the market as mentioned above. Although the Trust has a clear high income objective, we do not automatically sell shares when they cut or pass dividends. We review each situation on its own merits from a total return perspective but we also need to consider the impact on the total portfolio yield. Although we have retained positions in, amongst others, Barclays Bank, Inchcape and GKN, we decided to sell two shares that passed their dividends; Lloyds Banking Group and Anglo American. Lloyds now has the government as a leading shareholder, dividends seem unlikely for a considerable period and the outlook was particularly uncertain. The outlook for Anglo American was also challenging as commodities markets were under considerable pressure at the time. We switched part of the Anglo proceeds into BHP Billiton, our preferred miner.

In the water sector, a draft determination from the regulator OFWAT for the next five year regulatory review is likely to put future dividends under pressure in the industry. We sold the holding in Severn Trent in response, switching the proceeds into additional shares in utilities National Grid and Scottish & Southern Energy offering similar but safer yields.

Fund Manager's Report

The other two complete sales, Diageo and Sage, reflected the market polarisation to some extent. Although both are relatively defensive businesses their shares had performed quite well and therefore looked expensive compared to many better opportunities elsewhere.

In addition to the complete sales, we reduced many positions into the strong cyclical rally. In particular we took profits on retailers such as Halfords, Home Retail Group and Inchcape and we reduced the financials Barclays and Man Group. Several medium or smaller sized company holdings were also reduced into the rally as prices approached our target levels, including Marshalls, Dairy Crest and Britvic.

Dividends

The portfolio is managed with a view to continuing to generate a high level of income which, together with revenue reserves, has underpinned the 27 year record of dividend growth. Whilst we have continued to see dividend cuts during the period, most of the larger investments in the portfolio have raised their payouts. It would be premature to say we are seeing the end of dividend cuts but the frequency and magnitude seems to have reduced markedly in recent weeks. We listed four risk factors for the dividend outlook in the annual report, namely; the likely depth and duration of the recession, the level of financial markets, the level of sterling and oil prices. Three of these factors have improved since then, with only the level of sterling moving unfavourably.

Simon Gergel | RCM (UK) Limited

Twenty Largest Equity Holdings as at 31 July 2009

	Valuation £'000s	% of Total Assets*	Sector
Royal Dutch Shell 'B' Shares	40,144	8.90	Oil & Gas Producers
Vodafone	36,605	8.11	Mobile Telecommunications
GlaxoSmithKline	36,051	7.99	Pharmaceuticals & Biotechnology
HSBC	30,769	6.82	Banking
BP	29,645	6.57	Oil & Gas Producers
Scottish & Southern Energy	16,882	3.74	Electricity
BAE Systems	16,762	3.71	Aerospace & Defence
BT	16,186	3.59	Fixed Line Telecommunications
BHP Billiton	15,078	3.34	Mining
AstraZeneca	14,904	3.30	Pharmaceuticals & Biotechnology
British American Tobacco	14,851	3.29	Tobacco
Unilever	13,272	2.94	Food Producers
Centrica	12,431	2.76	Gas, Water & Multiutilities
Aviva	10,733	2.38	Life Insurance
Reed Elsevier	10,152	2.25	Media
National Grid	10,109	2.24	Gas, Water & Multiutilities
Inchcape	7,192	1.59	General Retailers
Barclays	6,710	1.49	Banking
Britvic	6,058	1.34	Beverages
Hammerson	6,016	1.33	Real Estate Investment Trusts
	350,550	**77.68**	

*Total Assets include current liabilities.

Portfolio Analysis as at 31 July 2009

	%
Listed equities	95.80
Unlisted equities	0.01
UK call options*	(0.05)
UK put options	0.02
Other net current assets	4.22
Total Assets	**100.00**

*As at 31 July 2009 call options had been written over 3.2% of the portfolio, generating premium receipts of £165,089. The proceeds were used to fund the purchase of FTSE 100 put options with a strike price of 2600, maturing in December 2009 and March 2010, at a cost of £168,468.

Income Statement

	For the six months ended 31 July 2009		
	Revenue £'000s	Capital £'000s	Total Return £'000s (Note 2)
Net gains (losses) on investments at fair value	–	24,711	24,711
Income from investments	13,501	–	13,501
Other income	447	–	447
Investment management fee	(256)	(476)	(732)
Investment management fee VAT refund	416	773	1,189
Administrative expenses	(393)	(1)	(394)
Net return before finance costs and taxation	**13,715**	**25,007**	**38,722**
Finance costs: interest payable and similar charges	(1,684)	(3,086)	(4,770)
Net return on ordinary activities before taxation	**12,031**	**21,921**	**33,952**
Taxation	–	–	–
Net return attributable to Ordinary Shareholders	**12,031**	**21,921**	**33,952**
Net return per Ordinary Share (Note 1) (basic and diluted)	**11.68p**	**21.28p**	**32.96p**

Balance Sheet

	As at 31 July 2009 £'000s
Investments held at fair value through profit or loss	432,410
Net current assets	18,866
Total Assets less Current Liabilities	**451,276**
Creditors: amount falling due after more than one year	(113,452)
Total Net Assets	**337,824**
Called up Share Capital	25,803
Share Premium Account	8,523
Capital Redemption Reserve	293
Capital Reserves	273,040
Revenue Reserve	30,165
Equity Shareholders' Funds	**337,824**
Net Asset Value per Ordinary Share	**327.3p**

The Net Asset Value is based on 103,213,464 Ordinary Shares in issue at 31 July 2009.

For the six months ended 31 July 2008			For the year ended 31 January 2009		
Revenue £'000s	**Capital £'000s**	**Total Return £'000s**	**Revenue £'000s**	**Capital £'000s**	**Total Return £'000s**
		(Note 2)			(Note 2)
–	(68,062)	(68,062)	–	(189,593)	(189,593)
18,209	–	18,209	30,319	–	30,319
148	–	148	1,410	–	1,410
(376)	(698)	(1,074)	(659)	(1,222)	(1,881)
–	–	–	967	206	1,173
(394)	(1)	(395)	(600)	(3)	(603)
17,587	**(68,761)**	**(51,174)**	**31,437**	**(190,612)**	**(159,175)**
(1,682)	(3,083)	(4,765)	(3,420)	(6,272)	(9,692)
15,905	**(71,844)**	**(55,939)**	**28,017**	**(196,884)**	**(168,867)**
–	–	–	–	–	–
15,905	**(71,844)**	**(55,939)**	**28,017**	**(196,884)**	**(168,867)**
15.47p	**(69.88)p**	**(54.41)p**	**27.25p**	**(191.50p)**	**(164.25p)**

As at 31 July 2008 £'000s	As at 31 January 2009 £'000s
546,500	411,795
6,015	16,482
552,515	**428,277**
(113,371)	(113,473)
439,144	**314,804**
25,703	25,703
7,527	7,527
293	293
376,159	251,119
29,462	30,162
439,144	**314,804**
427.1p	**306.2p**

The Net Asset Value is based on 102,813,464 Ordinary Shares in issue at 31 July 2008.

The Net Asset Value is based on 102,813,464 Ordinary Shares in issue at 31 January 2009.

Reconciliation of Movements in Shareholders' Funds

	Called up Share Capital £'000s	Share Premium Account £'000s	Capital Redemption Reserve £'000s	Capital Reserve £'000s	Revenue Reserve £'000s	Total £'000s
Six months ended 31 July 2009						
Net Assets at 31 January 2009	25,703	7,527	293	251,119	30,162	314,804
Revenue Return	–	–	–	–	12,031	12,031
Dividends on Ordinary Shares	–	–	–	–	(12,028)	(12,028)
Capital Return	–	–	–	21,921	–	21,921
Shares issued during the period	100	996	–	–	–	1,096
Net Assets at 31 July 2009	**25,803**	**8,523**	**293**	**273,040**	**30,165**	**337,824**
Six months ended 31 July 2008						
Net Assets at 31 January 2008	25,703	7,527	293	448,003	24,661	506,187
Revenue Return	–	–	–	–	15,905	15,905
Dividends on Ordinary Shares	–	–	–	–	(11,104)	(11,104)
Capital Return	–	–	–	(71,844)	–	(71,844)
Net Assets at 31 July 2008	**25,703**	**7,527**	**293**	**376,159**	**29,462**	**439,144**
Year ended 31 January 2009						
Net Assets at 31 January 2008	25,703	7,527	293	448,003	24,661	506,187
Revenue Return	–	–	–	–	28,017	28,017
Dividends on Ordinary Shares	–	–	–	–	(22,516)	(22,516)
Capital Return	–	–	–	(196,884)	–	(196,884)
Net Assets at 31 January 2009	**25,703**	**7,527**	**293**	**251,119**	**30,162**	**314,804**

Cash Flow Statement

	Six months to 31 July 2009 £'000s	Six months to 31 July 2008 £'000s	Year to 31 January 2009 £'000s
Net cash inflow from operating activities	**14,268**	**15,496**	**27,864**
Return on investment and servicing of finance			
Interest paid	(4,812)	(4,797)	(9,586)
Dividends paid on Preference Stock	(21)	(21)	(43)
Net cash outflow from servicing of finance	**(4,833)**	**(4,818)**	**(9,629)**
Capital expenditure and financial investment			
Purchases of fixed asset investments	(56,874)	(89,801)	(152,891)
Sales of fixed asset investments	60,652	91,090	165,738
Net cash inflow from capital expenditure and financial investment	**3,778**	**1,289**	**12,847**
Equity dividends paid	(12,028)	(11,104)	(22,516)
Net cash inflow before financing	**1,185**	**863**	**8,566**
Issue of Ordinary Shares	1,096	–	–
Net cash inflow from financing	**1,096**	**–**	**–**
Increase in cash	**2,281**	**863**	**8,566**
Reconciliation of Return on Ordinary Activities before Taxation to Net Cash Flow from Operating Activities			
Total return before finance costs and taxation*	38,722	(51,174)	(159,175)
Net (gains) losses on investments at fair value	(24,711)	68,062	189,593
	14,011	**16,888**	**30,418**
Increase in debtors	(136)	(1,369)	(2,328)
Decrease (Increase) in creditors	393	(23)	(226)
Net cash inflow from operating activities	**14,268**	**15,496**	**27,864**
Reconciliation of net cash flow to movement in net debt			
Net cash inflow	2,281	863	8,566
Decrease (Increase) in long term loans	20	42	(60)
Movement in net funds	**2,301**	**905**	**8,506**
Net debt brought forward	(98,962)	(107,468)	(107,468)
Net debt carried forward	**(96,661)**	**(106,563)**	**(98,962)**

*Inclusive of the VAT refund on investment fees (refer to Income Statement).

Notes

Note 1

The returns per Ordinary Share have been calculated using a weighted average number of shares in issue during the period of 103,018,989 shares (31 July 2008 - 102,813,464 shares; 31 January 2009 - 102,813,464 shares).

Note 2

The total return column of this statement is the profit and loss account of the Company.

All revenue and capital items derive from continuing operations. No operations were acquired or discontinued in the period.

A Statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the Income Statement.

Included in the cost of investments are transaction costs on purchases which amounted to £267,000 (31 July 2008 - £521,000; 31 January 2009 - £878,000) and transaction costs on sales which amounted to £80,000 (31 July 2008 - £125,000; 31 January 2009 - £222,000).

Note 3

Investments are designated as held at fair value through profit or loss in accordance with FRS 26 'Financial Instruments : Recognition and Measurement'. Listed investments are valued at bid market prices.

Note 4

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.

Dividends paid on Ordinary Shares in respect of earnings for each period are as follows:

	Six months to 31 July 2009 £'000s	Six months to 31 July 2008 £'000s	Year to 31 January 2009 £'000s
First Interim dividend 5.50p paid 19 August 2008	–	–	5,654
Second Interim dividend 5.60p paid 13 November 2008	–	–	5,758
Third Interim dividend 5.60p paid 20 February 2009 (2008 – 5.40p)	5,757	5,552	5,552
Special dividend 0.5p paid 15 May 2009 (2008 – Nil)	514	–	–
Final dividend 5.60p paid 15 May 2009 (2008 – 5.40p)	5,757	5,552	5,552
	12,028	**11,104**	**22,516**

Note 4 (continued)

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.

	Six months to 31 July 2009 £'000s	Six months to 31 July 2008 £'000s	Year to 31 January 2009 £'000s
Third Interim dividend 5.60p paid 20 February 2009	–	–	5,757
Special dividend 0.5p paid 15 May 2009	–	–	514
Final dividend 5.60p paid 15 May 2009	–	–	5,757
First Interim dividend 5.60p paid 19 August 2009 (2008 – 5.50p)	5,780	5,654	–
Second Interim dividend 5.60p payable 12 November 2009 (2008 – 5.60p)	5,780	5,758	–
	11,560	**11,412**	**12,028**

The second interim dividend noted above is based on the number of shares at the 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 purchase or cancellation of shares by the Company settled subsequent to the period end.

Note 5

The half-yearly financial report has been neither audited nor reviewed by the Company's auditors. The financial information for the year ended 31 January 2009 has been extracted from the statutory financial statements for that year which have been delivered to the Registrar of Companies. The accounting policies and presentation are consistent with those applied in the latest published financial statements. The auditors' report on those financial statements was unqualified and did not contain a statement under either Section 237(2) or Section 237(3) of the Companies Act 1985.

The Company also makes limited additional and updated disclosures, mainly relating to the first and third quarters of the financial year. These Interim Management Statements are released via the Regulatory News Service and posted on the Company's website www.merchantstrust.co.uk on or shortly before 19 June and 19 December each year.

Investor Information

Directors

H A Stevenson (Chairman), Sir James Sassoon (Chairman – Audit Committee), R A Barfield, S J Fraser, M J E McKeon and H E Staunton.

Managers

RCM (UK) Limited, 155 Bishopsgate, London EC2M 3AD. Telephone: 020 7859 9000. Represented by Simon Gergel.

Allianz Global Investors is the marketing name of RCM (UK) Limited, which is authorised and regulated by the Financial Services Authority.

Secretary and Registered Office

Kirsten Salt BA (Hons) ACIS, 155 Bishopsgate, London EC2M 3AD. Telephone: 020 7065 1513.
Registered Number: 28276.

Registrars

Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield, West Yorkshire, HD8 0GA.
Telephone (if calling from within the UK): 0871 664 0300 (calls cost 10p per minute plus network extras. Lines are open 8.30 a.m. - 5.30 p.m. Monday - Friday. Telephone (if calling from overseas): +44 20 8639 3399.
Email: ssd@capitaregistrars.com

Results

Half year announced in September. Full year announced in March. Annual Financial Report posted to shareholders in April. Annual General Meeting held in May.

Ordinary Dividends 2009/2010

	Dividend	Payment Date
First interim	5.60p	19 August 2009
Second interim	5.60p	12 November 2009
Third interim		February 2010
Final		May 2010

Website

Further information about the Company is available on the website: www.merchantstrust.co.uk.

Net Asset Value

The Net Asset Value of the Ordinary Shares is calculated daily and the top ten holdings are announced monthly. They are published through the London Stock Exchange Regulatory News Service. The Company's share price is published in the Daily Telegraph and Financial Times.

The net asset values and share prices are also available from Allianz Global Investors, via Investor Services on 0800 317 573 or on the Managers' website: www.allianzglobalinvestors.co.uk.

Shareholders' Enquiries

Capita Registrars maintain the share register. In the event of queries regarding shareholdings, lost certificates, registered details, etc., shareholders should contact the registrars. Changes of name or address must be notified to the registrars in writing.

Any general enquiries about the Company should be directed to the Company Secretary, at the Registered Office.

AIC Membership

The Company is a member of the Association of Investment Companies. Category: UK Growth & Income.

Printed on FSC-certified paper from well-managed forests and recycled wood or fibre, using vegetable based inks.

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