

For immediate release

8 April 2010

THE MERCHANTS TRUST PLC

Final Results for the year ended 31 January 2010

The following comprises extracts from the Company's Annual Financial Report for the year ended 31 January 2010. The full Annual Financial Report is available to be viewed on or downloaded from the company's website at www.merchantstrust.co.uk. Copies will be posted to shareholders shortly.

MANAGEMENT REPORT

Chairman's Statement

Market and Portfolio Background

Last year saw a welcome recovery in share prices, but at the same time an almost unprecedented fall in the level of dividends declared by UK companies, particularly in the financial sector, as a result of the crisis which began in the Summer of 2007 and which is still not played out.

Results

The net asset value per share increased by 21.8% to 372.8p and the total return per share, including dividends paid, was 29.2%. This compares with the total returns of 30.4% and 24.7% recorded by the FTSE 100 Index and the FTSE 350 Higher Yield Index, respectively.

The full performance breakdown is shown on page 5 of the Annual Financial Report. Over the year, the Trust's share price rose by 16.7% from 282.0p to 329.1p, having hit a low of 222.0p last March. At 6 April 2010, the Trust's ordinary shares yielded 6.1% compared with the yield on the FTSE 100 Index of 3.2%.

Earnings per share

Earnings per share fell by 30.6% to 18.91p, principally because of the dividend cuts to which I have already referred.

This year's earnings include a VAT refund amounting to £476,000 (including interest) (2009 – £1,806,000). Excluding the two VAT refunds, the net return attributable to Ordinary Shareholders fell by 27.4%.

Dividends

The Board is recommending a final ordinary dividend of 5.7p per share, payable on 14 May 2010 to Shareholders on the register on 16 April 2010. This payment would give a total of 22.5p for the year, an increase of 0.9% over the total for the previous year. In order to meet the payment it has been necessary to transfer £3,724,961 (3.6p per share) from our reserves. As at 31 January 2010 and after providing for this transfer, the Trust's reserves amounted to £14,408,093 (14.0p per share).

Gearing and Balance Sheet

The Trust has remained fully invested throughout the market's downturn and its subsequent recovery.

The investment objective of the Trust is clearly stated on page 2 of the Annual Financial Report; it follows that in the Board's view the allocation of assets by shareholders as between equities and other forms of investment should be a matter for them and not for the Trust. Moreover, the principal long term aim of the Trust is to generate growth in dividends and a sale of part of the equity portfolio would compromise this objective, given the low levels of return currently available on cash deposits or UK government securities.

As a consequence of the Trust remaining fully invested, the book value of our long term debt as a percentage of our net assets rose to a peak of 46% in March of last year before falling back to just below 30% at the year end.

In the light of this, and as anticipated in my last Chairman's Statement, the Board directed the fund managers to make use of exchange-traded options, on a relatively modest scale, with the object of protecting the portfolio in the event of a substantial fall in the market. This was achieved through the sale of call options on a small part of our portfolio, the proceeds of which were used to purchase FTSE 100 put options at considerably lower than the then prevailing market levels. This strategy would have provided a measure of protection had the market fallen to below 2600 on the FTSE 100, so that even at this level the managers would have been able to invest the portfolio primarily with a view to maximising investment returns rather than maintaining the necessary asset covers for our debentures.

Towards the end of the year, the Board concluded that the short-term threat to the financial system had reduced and that the purchase of the 'deep out of the money' put options should be suspended. The proceeds from the sale of any call options now taken out will be applied as an addition to the Trust's income.

VAT

As mentioned above, we have received a refund of VAT in respect of the period 2000 to 2007 which, including interest, totals £1,249,000. This figure has been incorporated in our results for the financial period under review.

Issue and Repurchase of Shares

During the financial year we were able to issue 400,000 new shares at a premium to the net asset value. No shares were bought back for cancellation. However, as in previous years, the Board is proposing to renew the authority to repurchase shares at the forthcoming Annual General Meeting.

The Board

Since the last Annual General Meeting, Simon Fraser has joined the Board. I am delighted that he has done so. He has had an exceptionally successful career in the fund management industry; he is Chairman-elect of Foreign & Colonial Investment Trust and since last year a non-executive director of Barclays.

This is my tenth annual statement to shareholders and it will be my last. I believe that now is the right time for me to step down and I will be retiring from the Board at the conclusion of the forthcoming Annual General Meeting. It is intended that Sir James Sassoon, currently Senior Independent Director and the Chairman of the Audit Committee, will succeed me as Chairman of the Trust.

Annual General Meeting

The Annual General Meeting of the Company will be held on Tuesday 11 May 2010 at 12.00 noon and we look forward to seeing as many shareholders then as are able to attend.

The ten years of my Chairmanship have not been all plain sailing. During the period we have experienced two vicious bear markets. Nevertheless, as indicated by the performance graph on page 15 of the Annual Financial Report, over the decade the Merchants net asset value total return has been 4.67% per annum, compared with a total return from the FTSE 100 of 1.45% per annum. (We have not quite matched the return on our other benchmark, the FTSE 350 Higher Yield Index, but this index has an extremely high degree of inherent risk – three companies alone account for nearly half the index.)

Moreover we have been able to increase our dividend in every year and the Merchants dividend has grown in real, as well as nominal, terms.

I am very grateful to all those who have contributed to this record and who have supported the Trust in other ways during my Chairmanship and I wish them well.

Hugh Stevenson
Chairman
7 April 2010

Principal Risks and Uncertainties

With the assistance of the Manager the Board has drawn up a risk matrix which identifies the key risks to the Company. These key risks fall broadly under the following categories:

- **Investment Activity and Strategy:** An inappropriate investment strategy, e.g., asset allocation or the level of gearing, may lead to underperformance against the Company's benchmark index and peer group companies, and also in the Company's shares trading on a wider discount. The Board manages these risks by diversification of investments through its investment restrictions and guidelines which are monitored and on which the Board receives reports. RCM (UK) Limited ("RCM") provides the Directors with management information including performance data and reports and shareholder analyses. The Board monitors the implementation and results of the investment process with the investment manager, who attends all board meetings, and reviews data which show risk factors and how they affect the portfolio. The Board reviews investment strategy at each board meeting.
- **Accounting, Legal and Regulatory:** In order to qualify as an investment trust the Company must comply with Section 842 of the Income and Corporation Taxes Act 1988 ("Section 842"). A breach of Section 842 could result in the Company losing investment trust status and, as a consequence, gains in the Company's portfolio would be subject to Corporation Tax. The Section 842 criteria are monitored by RCM and results are reported to the Board at each Board Meeting. The Company must comply with the provisions of the Companies Act 2006 ("Companies Act"), and, as the Company's shares are listed on the London Stock Exchange, the Company must comply with the UK Listing Authority's Listing Rules and Disclosure and Transparency Rules ("UKLA Rules"). A breach of the Companies Act could result in the Company and/or the Directors being fined or becoming the subject of criminal proceedings. Breach of the UKLA Rules could result in the suspension of the Company's shares which would in turn lead to a breach of Section 842. The Board relies on its company secretary and seeks advice from professional advisers to ensure compliance with the Companies Act and UKLA Rules.
- **Corporate Governance and Shareholder Relations:** Details of the Company's compliance with Corporate Governance best practice, including information on relations with shareholders, are set out in the Corporate Governance Statement in the Annual Financial Report.
- **Operational:** Disruption to, or failure of, RCM's accounting, dealing or payment systems or the custodian's records may prevent accurate reporting and monitoring of the Company's financial position. RCM has contracted operational functions, principally relating to trade processing and investment administration, to The Bank of New York Mellon – London Branch. Details of how the Board monitors the services provided by RCM and other suppliers and the key elements designed to provide effective internal control are included within the Internal Control section of the Corporate Governance Statement in the Annual Financial Report.
- **Financial:** The financial risks associated with the Company include market risk (price and yield), interest rate risk, liquidity risk and credit risk. Further analysis of these risks can be found in Note 18 in the Annual Financial Report.

Related Party Transactions

During the financial year no transactions with related parties have taken place which would materially affect the financial position or the performance of the Company.

Statement of Directors' Responsibilities

The Annual Financial Report contains a responsibility statement in the following form:

The Directors at the date of the approval of this Report, each confirm to the best of their knowledge that:

- the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and Applicable Law), give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Annual Financial Report includes a fair review of the development and performance of the Company and the position of the company, together with a description of the principal risks and uncertainties that it faces.

For and on behalf of the Board of Directors

Hugh Stevenson
Chairman

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INVESTMENT PORTFOLIO as at 31 January 2010

Listed Holdings

Name	Value (£)	Principal Activities
Royal Dutch Shell 'B' Shares	40,876,409	Oil & Gas Producers
GlaxoSmithKline	38,185,935	Pharmaceuticals & Biotechnology
Vodafone	37,449,638	Mobile Telecommunications
BP	33,726,136	Oil & Gas Producers
HSBC	29,338,374	Banks
AstraZeneca	20,859,554	Pharmaceuticals & Biotechnology
BAE Systems	20,538,561	Aerospace & Defence
Scottish & Southern Energy	19,914,400	Electricity
British American Tobacco	19,655,050	Tobacco
Unilever	18,612,750	Food Producers
BHP Billiton	16,607,400	Mining
Centrica	13,878,142	Gas, Water & Multiutilities
National Grid	13,608,000	Gas, Water & Multiutilities
Reed Elsevier	11,990,881	Media
Aviva	11,888,100	Life Insurance
BT Group	10,016,875	Fixed Line Telecommunications
Compass Group	6,958,250	Travel & Leisure
Britvic	6,933,833	Beverages
International Personal Finance	6,050,000	General Financial
Barclays	6,006,210	Banks
Hammerson	5,666,050	Real Estate Investment Trust
International Power	5,622,750	Electricity
Premier Farnell	5,540,370	Support Services
Reckitt Benckiser	5,362,500	Household Goods & Home Construction
Bunzl	5,339,475	Support Services
Meggitt	5,299,760	Aerospace & Defence
IG Group	5,278,882	General Financial
British Land	5,168,400	Real Estate Investment Trust
British Insurance	4,944,501	Non-life Insurance
Balfour Beatty	4,811,719	Construction & Materials
Legal & General	4,733,040	Life Insurance
Man Group	4,732,922	General Financial
WPP	4,389,342	Media
Rexam	3,784,024	General Industrials
Inchcape	3,646,636	General Retailers
Lloyds Banking Group	3,594,240	Banks
Arriva	3,537,946	Travel & Leisure
Halfords	3,511,104	General Retailers
Catlin	3,329,060	Non-life Insurance
Melrose	3,263,940	Industrial Engineering
Home Retail	3,135,098	General Retailers
Interserve	2,742,810	Support Services
Informa	2,263,800	Media
Resolution	2,157,300	Life Insurance
Ashmore	1,852,585	General Financial
Pendragon	1,484,339	General Retailers
Total Equities	488,287,091	

THE MERCHANTS TRUST PLC
Final Results for the year ended 31 January 2010

Listed Derivatives

Name	Value (£)
FTSE 100 Jun 2010 2600	49,875
FTSE 100 Sept 2010 2600	33,250
FTSE 100 Mar 2010 2600	–
Purchased Put Options	83,125
Royal Dutch Shell Feb 2010 2000	(750)
GlaxoSmithKline Feb 2010 1400	(1,000)
BHP Billiton Mar 2010 2400	(1,750)
National Grid Mar 2010 720	(1,900)
BHP Billiton Feb 2010 2200	(3,750)
BP Feb 2010 640	(4,250)
Vodafone Feb 2010 150	(4,500)
BP April 2010 680	(6,375)
Centrica Mar 2010 300	(11,250)
Reckitt Mar 2010 3400	(12,200)
BT Group Mar 2010 160	(13,125)
Reed Elsevier Mar 2010 540	(20,000)
BAE Systems Mar 2010 380	(21,000)
Written Call Options	(101,850)
Total Derivative Financial Instruments	(18,725)
Total Listed Investments	488,268,366

INCOME STATEMENT
for the year ended 31 January 2010

	Revenue Return £	Capital Return £	Total Return £
			(Note C)
Net gains on investments at fair value	-	79,416,688	79,416,688
Income	23,686,655	-	23,686,655
Investment management fee	(560,552)	(1,041,025)	(1,601,577)
Investment management fee VAT refund	416,080	772,720	1,188,800
Administrative expenses	(659,180)	(3,915)	(663,095)
Net return before finance costs and taxation	22,883,003	79,144,468	102,027,471
Finance costs: interest payable and similar charges	(3,384,935)	(6,206,422)	(9,591,357)
Net return on ordinary activities before taxation	19,498,068	72,938,046	92,436,114
Taxation	-	-	-
Net return on ordinary activities attributable to Ordinary Shareholders	19,498,068	72,938,046	92,436,114
Return per Ordinary Share (basic and diluted) (Note B)	18.91p	70.73p	89.64p

BALANCE SHEET
as at 31 January 2010

	2010 £	2010 £
Fixed Assets		
Investments held at fair value through profit or loss		488,314,516
Current Assets		
Derivative financial instruments	83,125	
Debtors	3,681,322	
Cash at bank	8,911,182	
	<u>12,675,629</u>	
Creditors – Amounts falling due within one year		
Derivative financial instruments	(101,850)	
Other creditors	(2,682,809)	
	<u>(2,784,659)</u>	
Net Current Assets		<u>9,890,970</u>
Total Assets Less Current Liabilities		498,205,486
Creditors – Amounts falling due after more than one year		<u>(113,458,272)</u>
Total Net Assets		<u>384,747,214</u>
Capital and Reserves		
Called up Share Capital		25,803,366
Share Premium Account		8,523,195
Capital Redemption Reserve		292,853
Capital Reserve		324,056,586
Revenue Reserve		26,071,214
Equity Shareholders' Funds		<u>384,747,214</u>
Net Asset Value per Ordinary Share		372.8p

INCOME STATEMENT
for the year ended 31 January 2009

	Revenue Return £	Capital Return £	Total Return £
			(Note C)
Net losses on investments at fair value	-	(189,593,060)	(189,593,060)
Income	31,729,754	-	31,729,754
Investment management fee	(658,425)	(1,222,788)	(1,881,213)
Investment management fee VAT refund	966,622	205,850	1,172,472
Administrative expenses	(599,808)	(2,967)	(602,775)
Net return before finance costs and taxation	31,438,143	(190,612,965)	(159,174,822)
Finance costs: interest payable and similar charges	(3,420,245)	(6,271,962)	(9,692,207)
Net return on ordinary activities before taxation	28,017,898	(196,884,927)	(168,867,029)
Taxation	-	-	-
Net return on ordinary activities attributable to Ordinary Shareholders	28,017,898	(196,884,927)	(168,867,029)
Return per Ordinary Share (basic and diluted) (Note B)	27.25p	(191.50p)	(164.25p)

BALANCE SHEET
as at 31 January 2009

	2009 £	2009 £
Fixed Assets		
Investments held at fair value through profit or loss		411,795,591
Current Assets		
Derivative financial instruments	-	
Debtors	3,877,216	
Cash at bank	14,511,020	
	<u>18,388,236</u>	
Creditors – Amounts falling due within one year		
Derivative financial instruments	-	
Other creditors	(1,906,701)	
	<u>(1,906,701)</u>	
Net Current Assets		<u>16,481,535</u>
Total Assets Less Current Liabilities		428,277,126
Creditors – Amounts falling due after more than one year		<u>(113,473,090)</u>
Total Net Assets		<u>314,804,036</u>
Capital and Reserves		
Called up Share Capital		25,703,366
Share Premium Account		7,527,047
Capital Redemption Reserve		292,853
Capital Reserve		251,118,540
Revenue Reserve		30,162,230
Equity Shareholders' Funds		<u>314,804,036</u>
Net Asset Value per Ordinary Share		306.2p

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the year ended 31 January 2010

	Called up Share Capital £	Share Premium Account £	Capital Redemption Reserve £	Capital Reserve £	Revenue Reserve £	Total £
Net Assets at 31 January 2008	25,703,366	7,527,047	292,853	448,003,467	24,660,480	506,187,213
Revenue Return	-	-	-	-	28,017,898	28,017,898
Dividends on Ordinary Shares	-	-	-	-	(22,516,148)	(22,516,148)
Capital Return	-	-	-	(196,884,927)	-	(196,884,927)
Net Assets at 31 January 2009	25,703,366	7,527,047	292,853	251,118,540	30,162,230	314,804,036
Net Assets at 31 January 2009	25,703,366	7,527,047	292,853	251,118,540	30,162,230	314,804,036
Revenue Return	-	-	-	-	19,498,068	19,498,068
Dividends on Ordinary Shares	-	-	-	-	(23,589,084)	(23,589,084)
Capital Return	-	-	-	72,938,046	-	72,938,046
Shares issued during the year	100,000	996,148	-	-	-	1,096,148
Net Assets at 31 January 2010	25,803,366	8,523,195	292,853	324,056,586	26,071,214	384,747,214

CASH FLOW STATEMENT

For the year ended 31 January 2010

	2010 £	2010 £	2009 £
Net cash inflow from operating activities		25,230,795	27,864,495
Returns on investment and servicing of finance			
Interest paid	(9,563,178)		(9,586,923)
Dividends on Cumulative Preference Stock	(42,997)		(42,997)
Net cash outflow from servicing of finance		(9,606,175)	(9,629,920)
Capital expenditure and financial investment			
Purchase of investments	(112,115,497)		(152,890,966)
Sale of investments	113,383,975		165,738,174
Net cash inflow from capital expenditure and financial investment		1,268,478	12,847,208
Dividends paid on Ordinary Shares		(23,589,084)	(22,516,148)
Net cash (outflow) inflow before financing		(6,695,986)	8,565,635
Financing			
Proceeds from issue of Ordinary Shares	1,116,000		-
Share issue costs	(19,852)		-
Net cash inflow from financing		1,096,148	-
(Decrease) Increase in cash		(5,599,838)	8,565,635

Notes

Note A

The financial statements have been prepared on the historical cost basis 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 (AIC).

Note B

The Returns per Ordinary Share have been calculated using a weighted average number of shares in issue of 103,117,026 (2009 – 102,813,464 shares).

Note C

The total return column of this statement is the profit and loss account of the Company. The supplementary revenue return and capital return columns are both prepared under the guidance published by the Association of Investment Companies.

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

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.

Note D

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 held at fair value through profit or 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 or losses arising on sale of investments are recognised in the capital column of the Income Statement and taken to the Capital Reserve.

Included in the cost of investments are transaction costs and stamp duty on purchases which amounted to £647,513 (2009 – £878,184). Transaction costs on sales amounted to £144,771 (2009 – £221,763).

Note E

	2010	2009
	£	£
Dividends on Ordinary Shares of 25p:		
Third interim dividend 5.6p paid 20 February 2009 (2008 – 5.4p)	5,757,554	5,551,927
Final dividend 5.6p paid 15 May 2009 (2008 – 5.4p)	5,757,554	5,551,927
Special dividend 0.5p paid 15 May 2009 (2008 – nil)	514,068	–
First interim dividend 5.6p paid 19 August 2009 (2008 – 5.5p)	5,779,954	5,654,740
Second interim dividend 5.6p paid 12 November 2009 (2008 – 5.6p)	5,779,954	5,757,554
	<u>23,589,084</u>	<u>22,516,148</u>

Dividends payable and proposed at the year end are not recognised as a liability under FRS 21 'Events After Balance Sheet Date' (see Annual Financial Report – Statement of Accounting Policies). Details of these dividends are set out below.

	2010	2009
	£	£
Third interim dividend 5.6p paid 19 February 2010 (2009 – 5.6p)	5,779,954	5,757,554
Special dividend £nil (2009 – 0.5p)	-	514,067
Final proposed dividend 5.7p payable 14 May 2010 (2009 – 5.6p)	5,883,167	5,757,554
	<u>11,663,121</u>	<u>12,029,175</u>

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

Note F

The financial information for the year ended 31 January 2010 has been extracted from the statutory accounts for that year. The auditor's report on these accounts was unqualified and did not contain a statement under either Section 498(2) or (3) of the Companies Act 2006. The Annual Financial Report has not yet been delivered to the Registrar of Companies.

The financial information for the year ended 31 January 2009 has been extracted from the statutory accounts for that year which have been delivered to the Registrar of Companies. The auditor's report on these accounts was unqualified and did not contain a statement under either Section 237(2) or (3) of the Companies Act 1985.