15 September 2016

THE MERCHANTS TRUST PLC
Half-yearly financial report
For the six months ended 31 July 2016

Highlights

- Net dividends declared in the first six months of 2016/17 are 12.0p per share.

- Ordinary shares yield 5.7% at 421.7p, compared with 3.8% on the FTSE 100 Index at the close of business on 14 September 2016.

- The NAV returns were as follows:

	At 31 July 2016	At 31 January 2016	Capital return % change	Total return % change
Net asset value per ordinary share (debt at market value)	447.0p	437.7p	+2.1	+4.9
Net asset value per ordinary share (debt at par)	475.0p	458.1p	+3.7	+6.3
Ordinary share price	424.0p	414.0p	+2.4	+5.3
FTSE 100 Index	6,724.4	6,083.8	+10.5	+13.1
Discount of ordinary share price to net asset value (debt at market value)	-5.1%	-5.4%	n/a	n/a
Discount of ordinary share price to net asset value (debt at par)	-10.7%	-9.6%	n/a	n/a

Interim management report

Half year results
The company achieved a positive total return. The performance against the FTSE 100 was disappointing, but reflects certain portfolio characteristics, specific market circumstances and the impact of falling bond yields on the market value of the company's debt. This is explained fully in the investment performance commentary on page 5, with an attribution analysis set out below.

Interim dividends
The board has declared a second quarterly dividend of 6.0p per ordinary share, payable on 10 November 2016 to shareholders on the register at close of business on 7 October 2016. The total distribution declared for the first half of 2016/17 is 12.0p net, maintaining payments the same as the first two dividends paid last year. As at 31 July 2016, the company's revenue reserve, after deducting the first and second quarterly dividends, represented 13.0p per share (2015 – 12.7p).

Net revenue
Earnings in the first six months of the current year, to 31 July 2016, were 14.38p per ordinary share (2015 – 14.14p).

Net asset value – capital basis
As at 31 July 2016, the NAV per ordinary share (with debt at market value) was 447.0p. On a capital basis, the NAV per ordinary share (with debt at market value) increased by 2.1%, compared with the benchmark, the FTSE 100 Index, which increased by 10.5%.

Net asset value - total return basis
The total return reflects both the change in net asset value per ordinary share and the net ordinary dividends paid. For the six months to 31 July 2016, the NAV per ordinary share (with debt at market value) increased by 4.9%, whilst the FTSE 100 Index increased by 13.1%.

Material events and transactions
At the annual general meeting of the company, all the resolutions put to shareholders were passed.

The third quarterly dividend of 6.0p per share was paid on 24 February 2016 to shareholders on the register on 29 January 2016. A final dividend of 6.0p per share was paid on 26 May 2016 to shareholders on the register on 22 April 2016. The total paid and declared for the year ended 31 January 2016 was 24.0p.

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

Since the period end, the first quarterly dividend for the year ending 31 January 2017 of 6.0p per share was paid on 12 August 2016 to shareholders on the register on 15 July 2016.

Buybacks and share issuances

In the Annual Financial Report we explained our approach to the issuance of new shares when the company's ordinary shares are trading at a premium to NAV with debt at market value and also our proposal to buy back shares for holding in treasury to help dampen share price volatility when it is at a sustained discount to NAV. Since the approval of this programme was renewed by shareholders at the AGM in May this year we have seen the shares trading at a discount (averaging 6.2% since 24 May) through periods of market volatility which has not given rise to any issuances or buybacks.

Gearing

The company continues to have long-term debt amounting to £110million. At the end of the period our gearing level was 21.6% compared to 22.4% at 31 January 2016. The gearing is in the form of structural long term debt, primarily consisting of two long term debentures, the first of which matures in 2018 and the second in 2023, and secured bonds maturing in 2029. Since 31 July 2013, the debt has been valued using a formulaic approach by adding a margin, derived from the spread of BBB UK corporate bond yields over gilt yields, to the yield of the relevant reference gilt. All debt is deployed in the market for investment purposes.

As illustrated in the table below, the portfolio gearing had a gross beneficial effect of +2.0%, or a net effect of +1.0% after the -1.0% cost of finance. The gearing benefit was more than cancelled out by the movement in the market value of debt, which subtracted from performance by 1.7%, as bond yields fell to extremely low levels. Other costs, management fees and administration costs also reduced the total return by 1.0%.

Performance attribution analysis against FTSE 100 Index	**Capital return %**	**Income return %**	**Total return %**
Return of portfolio	**3.4**	**3.2**	**6.6**
Impact of gearing on portfolio	1.1	0.9	2.0
Movement in fair value of debt	-1.7	-	-1.7
Finance costs	-0.6	-0.4	-1.0
Management fee	-0.1	-0.1	-0.2
Administration expenses	-	-0.1	-0.1
Other	-	-0.7	-0.7
Change in net asset value per ordinary share (debt at market value)	**2.1**	**2.8**	**4.9**

Return of portfolio	**3.4**	**3.2**	**6.6**
Return of Index	10.5	2.6	13.1
Relative return on portfolio	-7.1	0.6	-6.5

Prospects

The vote to leave the EU has increased uncertainty around the outlook for the UK economy. However the UK stock market is distinct from the UK economy. Most large British companies have substantial overseas operations and may even benefit from sterling weakness. Sections of the UK stock market look more fully valued, after a strong recovery so far this year. However, our fund managers are still finding many attractive investment opportunities, capable of delivering a combination of income and capital growth.

With government bonds and cash offering negligible income, we believe that Merchants' high yield, generated from a diversified portfolio of reasonably valued equities, is particularly well suited to the current environment.

Simon Fraser
Chairman
199 Bishopsgate
London EC2M 3TY

15 September 2016

Principal Risks and Uncertainties

The principal risks and uncertainties facing the company are broadly unchanged from those described in the Annual Financial Report for the year ended 31 January 2016 and are as follows:

• Investment Activity and Strategy including Gearing and Market Volatility – An inappropriate investment strategy, e.g., on asset allocation or the level of gearing, may lead to significant under-performance against the company's benchmark index and peer group companies, and may also result in the company's shares trading on a wider discount;
• Corporate Governance, Shareholder Relations and Marketing – If there is weak adherence to best practice in corporate governance, shareholder discontent could arise resulting in potential reputational damage to the company. Inadequate marketing and communication about the company could result in selling of the shares and a significant impact on the rating of the company.
• Financial and Regulatory – Failure to contain financial risks could result in losses to the company. Failure to comply with relevant regulations could damage the company and its ability to continue in business.
• Operational – The company is dependent on third parties for the provision of all systems and services and there are risks of control failures and gaps in these systems and services resulting in loss or damage to the company.

The board's approach to mitigating these risks and uncertainties is set out in the annual financial report. In the board's view these will remain the principal risks and uncertainties for the six months to 31 January 2017. The board will over the coming months continue to monitor closely the impact on markets and the effect on the company of the UK voting to leave the European Union.

Responsibility statements

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 FRS102 and FRS104, as set out in Note 2, 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 the Disclosure and Transparency Rule 4.2.8 R.

Simon Fraser
Chairman

15 September 2016

Fund Manager's Report

Economic and Market Background

The UK stock market performed well in the first half of the financial year, rebounding from the low levels it reached last year. Early on, there were concerns over slowing growth in China, rising interest rates in the USA and the "Brexit" referendum in the UK. However these concerns abated over subsequent months. The Chinese government stimulated their economy with a large credit injection. The Federal Reserve Board in the USA backed away from a second interest rate increase this cycle, after a particularly weak employment figure for May, although this report seems to have been an aberration.

The UK voted to leave the EU on 23 June. However, after an initial wobble, the stock market regained its poise and performed well until the period end. Many of the largest UK companies, in industries like natural resources, pharmaceuticals and consumer products, are multinationals that derive the bulk of their sales and profits overseas. These companies have only limited exposure to the domestic economy. The sharp drop in the value of the pound makes their overseas earnings more valuable to UK investors and explains their strong performance.

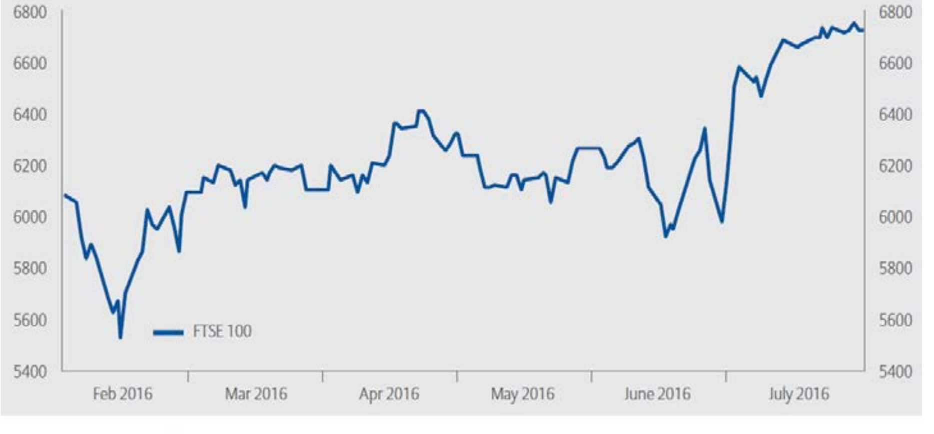
The FTSE 100 Index produced a total return of 13.1% in the six month period. In contrast to the larger companies in the FTSE 100 Index, the FTSE 250 Index of medium sized companies is far more dependent upon the domestic economy. This index significantly underperformed the FTSE 100, particularly after the referendum, with a total return of 6.5%.

In the wake of the EU referendum result, the prime minister David Cameron resigned. He was replaced, surprisingly quickly, by Theresa May. Despite being in the "remain" camp during the referendum campaign, Mrs May was very quick to state that "Brexit means Brexit", although she indicated that it will take some time before the UK is ready to invoke Article 50 of the Lisbon Treaty, which governs countries leaving the EU. She also set out strong views on corporate governance, calling for employee and shareholder representation on company boards, binding votes on remuneration and disclosure of the ratio of chief executive pay to average workers' pay. Furthermore, she indicated a possible change of emphasis in industrial policy, with greater consideration of whether overseas takeover bids for British companies would be in the national interest.

Although the overall market return was strong, this masks extreme dispersion of returns between and within different sectors. In general, natural resources, internationally exposed sectors and more defensive industries performed well, whilst domestic, cyclical and financial sectors were weak. Mining was the strongest sector, with a 72% total return, including Anglo American and Glencore which rose by 200% and 168%, respectively. The major oil stocks also rallied with the rebound in the oil price, with Royal Dutch Shell "B" returning 37%. Other notable performers included the large pharmaceuticals and tobacco sectors, which produced 20% returns.

On the other hand, the general retail sector produced a negative return of 17%, with fixed line telecoms and food producers also down in double digits, reflecting specific stock moves. The banks sector was broadly flat, in aggregate, but the divergence within the sector reflected the divergent stock market. Standard Chartered and HSBC gave positive returns of 28% and 6%, respectively, whilst Barclays, Lloyds and RBS fell by between 15% and 24%.

FTSE 100 Index 31 January 2016 to 31 July 2016



Source: Thomson Reuters Datastream

Investment Performance
We show on Page 2 the performance attribution of the trust. This table breaks down the Net Asset Value performance between the performance of the investment portfolio, the impact of gearing, the movement in the value of debt and other factors. Overall the NAV total return for the period was 4.9%. The total return of the investment portfolio was 6.6%. The portfolio gearing had a gross beneficial effect of +2.0%, or a net effect of +1.0% after the -1.0% cost of finance. The gearing benefit was more than cancelled out by the movement in the fair value of debt, which impacted performance by -1.7%, as bond yields fell to extremely low levels. Other costs, management fees and administration costs also reduced the total return by 1.0%. The section below focuses on the performance of the investment portfolio.

It was a difficult period for the portfolio's performance, following strong performance in recent years. The total return was 6.6% compared to a return of 13.1% on the FTSE 100 index. This underperformance reflects three principal themes as well as some stock specific issues.

Firstly, the portfolio has only a small exposure to the mining sector. Over recent years this has been very positive for relative performance as the sector has fallen significantly due to overcapacity in the industry. However, this year, a sharp rise in mining shares has impacted the relative performance. Secondly, around a third of the portfolio is invested in medium sized companies outside the FTSE 100. Whilst this factor has also been helpful in recent years, it has held back performance this year, and several of the portfolio's medium and smaller companies have de-rated significantly. Thirdly, we have been selling out of many of the more defensive consumer stocks in industries like tobacco and household products as valuations have increased. However, these stocks have continued to outperform, especially post the referendum result.

The table shows the top 10 positive and negative stock contributors to the relative performance.

Table of Estimated Contribution to Investment Performance Relative to FTSE 100 Index 31 January 2016 to 31 July 2016

Positive Contribution	%	Over/under weight	Negative Contribution	%	Over/under weight
UBM	0.8	+	Inmarsat	-1.3	+
BT Group	0.7	-	Kier	-0.8	+
Ashmore Group	0.4	+	Marks & Spencer	-0.7	+
Barclays	0.3	-	Glencore	-0.6	-
GlaxoSmithKline	0.3	+	SThree	-0.6	+
Vodafone Group	0.3	-	Standard Life	-0.5	+
Next	0.3	-	Arm Holdings	-0.5	-
IAG	0.2	-	Rio Tinto	-0.5	-
ITV	0.2	-	Balfour Beatty	-0.5	+
Centrica	0.2	+	Greene King	-0.4	+

Over / under weight: Whether proportion of stock in portfolio is higher (+) or lower (-) than its weighting in the FTSE 100 Index.
Source: Alliance Global Investors

On the positive side, United Business Media, a large investment in the portfolio, performed well, as the business focused down into its attractive exhibitions and events activities. Similarly, another large holding – GlaxoSmithKline – also performed well, as its strategic repositioning started to deliver improving growth and profitability. The emerging markets fund manager, Ashmore, was a very strong performer, as investor sentiment towards the asset class recovered. Centrica, the owner of British Gas, also recovered some of its previous weakness on improving results and stronger commodity prices. The two large oil stocks, Royal Dutch Shell and BP, also deserve a mention as they are both large holdings within the Fund and performed very well. They did not significantly benefit the relative return, however, as they are also large index constituents.

Six of the top ten performance contributors were stocks which were not owned in the portfolio (or underweight positions) that performed poorly, holding back the index return. These were the telecoms companies BT and Vodafone, the consumer stocks Next, International Airlines Group and ITV, and Barclays bank.

On the negative side, the biggest individual impact came from the satellite communications company Inmarsat. This had been a strong performer over the previous two years and was de-rated heavily, due to difficult trading conditions in its core maritime division, and concerns over higher capital investments. We support the company's investments into new innovative activities, such as enabling wi-fi on aeroplanes in

Europe, and we believe the stock remains attractive. Concerns about the risks to the domestic economy from Brexit, weighed on the construction services groups Kier and Balfour Beatty, the pub company Greene King, the retailer Marks & Spencer and the recruitment company SThree. The latter two businesses also reported more difficult trading conditions, particularly M&S. Standard Life also performed poorly along with much of the financial sector.

As mentioned above, not owning certain mining stocks, notably Glencore and Rio Tinto, held back performance. The final stock within the top ten negative contributors was ARM holdings. We did not own this technology company which received a takeover bid.

Portfolio Changes
A high dispersion of stock returns and considerable volatility during the period, produced many investment opportunities. We introduced one new company to the portfolio and sold out of three completely.

The new investment is Senior. This is a manufacturer of specialist engineering products for the aerospace, automotive and industrial sectors. The shares were depressed by a profits warning in its division servicing the automotive and oil industries. The bulk of profits now comes from aerospace, where the company is well placed on major production programmes in civil and military aviation. The profits warning brought the shares down to an unusually attractive entry price, which did not reflect the future growth potential.

We sold the remaining small position in Segro, the industrial property company. Segro has been a profitable investment, as the property cycle has recovered, but prime industrial property valuations are now high, limiting further upside. There is also a risk that the UK's decision to leave the EU may affect tenant demand, or property valuations in the coming months. In contrast, we added to the holding in our other industrial real estate investment company, Hansteen, which is more exposed to secondary space, where it can reduce vacancies to drive up rental income. It also has around 60% of its assets outside the UK, providing a buffer, should the UK economy slow down.

We made a switch within the gambling sector. We sold the remaining position in William Hill, where recent trading trends have been disappointing. Part of the proceeds was reinvested into Ladbrokes, where the recovery strategy is starting to deliver good results, and the proposed merger with Coral can bring added synergy benefits.

The final complete disposal was Barclays, where the trust had a relatively modest investment. In the wake of the Brexit referendum decision, we switched this holding into Lloyds, building up the position in the latter stock. Lloyds has a stronger capital position and is further through its restructuring plan, so it should be better placed to deal with any economic shocks. Within the sector we also took some money out of HSBC, at the same time, to limit the overall banking exposure.

Much of the portfolio activity involved taking advantage of the considerable stock volatility. We took profits in several strong performing shares, as their valuations increased, and added to companies that were over-sold and offered better value. Significant additions to existing positions included Prudential, Centrica, M&S, Standard Life and Inmarsat. Profit taking included reducing British American Tobacco, CRH, National Grid and UBM. After the referendum, we trimmed back the large holdings in the "mega-cap" companies, GlaxoSmithKline, BP and Royal Dutch Shell, which had outperformed significantly and were no longer as undervalued, although they remain major investments.

Derivatives Strategy
The trust operates a covered call strategy on a limited proportion of the portfolio to generate additional income. In "writing" or selling an option the trust gives the purchaser the right to buy a specific number of shares in a company at an agreed "strike" price within a fixed period. In exchange the trust receives an option premium which is taken to the revenue account. The trust gets the full benefit of any move in the share price up to the strike price but not beyond. If the share price rises above the strike price there is a potential "opportunity" cost (but not a cash cost) to the trust as the option holder can exercise their option to buy the shares at the strike price.

The option strategy once again delivered its primary objective of income generation, with approximately £420,000 of option premium accrued. The strategy was also modestly profitable overall, after taking into account movements in options prices and any opportunity costs incurred from option exercises. Option activity was at a similar level to last year.

Outlook
The historic decision to leave the EU creates uncertainty about the outlook for the UK economy. In the short term, investment into the UK and activity within the economy could suffer as spending plans are delayed. Survey evidence points to increased concern about the outlook, though it is too early for a clear

view. A move to record low interest rates from the Bank of England, and the sharp drop in sterling, may offset some of the pressures. The weaker pound, if sustained, makes UK exports more competitive and should also support the domestic tourism and leisure market as more people decide to holiday in the UK. Longer term, the key uncertainty is how Britain's ongoing relationship with the EU will develop.

Whilst political risk in the UK has receded, following the speedy appointment of Theresa May as prime minister, political risk is an increasing feature more generally, as unconventional politicians gain support in the USA and across much of Europe.

The UK's relationship with the EU may dominate domestic news flow, but the broad economic outlook for the world remains similar to how we described it at the year end. We are in a prolonged period of financial repression, with extremely low interest rates and modest economic growth. There are risks, in the long term, from high levels of government debt, but central banks are likely to remain extremely accommodative. The USA could raise interest rates in the next few months, depending upon the economic data, but we would only expect rates to normalise gradually.

In the meantime, bond yields are extremely low, with UK 10 year gilt yields around 0.5% at the time of writing, and negative base rates across much of Europe. These are having a supportive but distorting impact on asset prices, as well as on the valuation of liabilities, as can be seen by ballooning pension deficits.

The equity market has risen sharply in recent months, especially since the referendum, and the FTSE 100 index is now back near its all-time high reached in the spring of 2015. However, it is hard to draw too many conclusions from the index level. There is a very significant divergence within the market between stocks perceived to be relatively defensive, which are typically trading at very high valuations by historic standards, and those where the earnings outlook is less clear, which are often still cheap. This divergence between large sections of the stockmarket, is reminiscent of the technology, media and telecommunications (TMT) bubble at the end of the last century. Ironically, then it was the "old economy" stocks in sectors like tobacco and food producers that were trading on very modest valuations whilst the TMT stocks rallied ever higher.

As always, during these periods of extremes, there are understandable reasons why investors are prepared to pay up for certain companies. The internet revolution has indeed created phenomenal businesses like Amazon, Google (Alphabet) and Facebook, but most TMT stocks were terrible investments in the early 2000s. At present, with near zero cost of money, it is understandable that investors prefer to buy reliable companies, that pay a (modest) dividend, for a high price, rather than leaving cash in the bank. However we see the likely total returns from these "bond proxies" as mediocre at best.

In contrast, there are many sound companies in the stock market that are lowly valued, though these typically have greater near term uncertainty. Many cyclicals, financials or companies exposed to the domestic UK economy remain lowly rated as investors have crowded into safe havens.

We have seen good value, for some time, in specific "mega caps", like Royal Dutch Shell and GSK. Even though these stocks have performed well this year, they remain attractively valued, with dividend yields of 5% or higher. We also continue to find opportunities amongst recovery situations, where businesses with strong market positions and competitive advantages, are cyclically depressed or have had specific operational problems. There is the potential to make high returns from these companies as profits recover. Companies like Carnival, CRH and Ladbrokes have started to outperform as recovery comes through, and we still see further potential. But others, such as First Group, Marks & Spencer, Balfour Beatty and SThree are at an earlier stage.

Another area of opportunity is the financial sector, where there is a diverse range of businesses and many are trading at attractive levels. Life assurance companies like Prudential and Standard Life are lowly valued and offer exposure to structural growth in the savings market. IG Group and ICAP are innovative technology leaders in their industries. Particular real estate companies and banks also offer good value.

In summary, we are excited about the opportunities we still find to buy strong businesses, paying good dividend yields at attractive valuations, which should help to drive dividend and capital growth for the trust's shareholders in the years ahead.

Dividends
The trust's dividend income is getting a boost this year from the depreciation of sterling, as about 30% of dividends are paid in a foreign currency, predominantly the US dollar. In addition, companies like GSK and UBM earn significant dollar revenues but pay sterling dividends. As the dollar appreciates, the value of their cash flows in pounds increases, supporting their income. However, it is hard to know how sustainable recent currency moves will be.

Many of the portfolio companies are delivering stable or growing dividend growth, but there remain situations where dividends are under pressure. Any weakness of the UK economy is likely to raise the risk on dividend growth from domestically exposed cyclical companies, such as the banks.

In the first six months, income generated from the investment portfolio and the revenue earnings per share were both around 2% above the corresponding figures last year.

Simon Gergel
Allianz Global Investors

THE MERCHANTS TRUST PLC

Twenty Largest Equity Holdings as at 31 July 2016

	Market Value £'000s	Total Assets %*	Principal Activity
GlaxoSmithKline	49,948	7.97	Pharmaceuticals & Biotechnology
Royal Dutch Shell 'B' shares	47,614	7.60	Oil & Gas Producers
BP	32,643	5.21	Oil & Gas Producers
HSBC	30,605	4.88	Banks
UBM	29,455	4.70	Media
Centrica	24,888	3.97	Gas, Water & Multiutilities
BAE Systems	21,606	3.45	Aerospace & Defence
Lloyds Banking Group	21,473	3.43	Banks
Tate & Lyle	20,736	3.31	Food Producers
Inmarsat	20,415	3.26	Mobile Telecommunications
SSE	16,221	2.59	Electricity
Prudential	14,752	2.35	Life Insurance
CRH	14,618	2.33	Construction & Materials
Carnival	14,060	2.24	Travel & Leisure
Diageo	13,830	2.21	Beverages
Hansteen	13,812	2.20	Real Estate Investment Trusts
Standard Life	13,396	2.14	Life Insurance
Pennon	13,259	2.12	Gas, Water & Multiutilities
IG Group	12,339	1.97	Financial Services
Marks & Spencer	12,086	1.93	General Retailers
	437,756	69.86	

* Total assets include current liabilities

Portfolio Analysis as at 31 July 2016

Sector	Market Value £'000s	Total Assets %**
Financials	148,891	23.76
Consumer Services	101,158	16.14
Industrials	85,739	13.68
Oil & Gas	80,257	12.81
Utilities	66,217	10.57
Health Care	49,948	7.97
Consumer Goods	38,919	6.21
Telecommunications	20,415	3.26
Net Current Assets	17,833	2.85
Basic Materials	17,205	2.75
	626,582	100.00

** Total assets include current liabilities

As at 31 July 2016 call options were written over 3.2% of the portfolio (valued at strike price). During the period, income generated from call options amounted to £419,986.

THE MERCHANTS TRUST PLC

Summary of Unaudited Results

INCOME STATEMENT
For the six months ended 31 July 2016

	Revenue £'000s	Capital £'000s	2016 Total Return £'000s
			(Note 1)
Net gains on investments at fair value	-	19,475	19,475
Income from investments	17,668	-	17,668
Other income	436	-	436
Investment management fee	(374)	(695)	(1,069)
Administrative expenses	(435)	(1)	(436)
Net profit before finance costs and taxation	17,295	18,779	36,074
Finance costs: interest payable and similar expenses	(1,664)	(3,051)	(4,715)
Net profit on ordinary activities before taxation	15,631	15,728	31,359
Taxation	-	-	-
Net profit attributable to ordinary shareholders	15,631	15,728	31,359
Earnings per ordinary share (Note 4)			
(basic and diluted)	14.38p	14.46p	28.84p

BALANCE SHEET
As at 31 July 2016

	2016 £'000s
Fixed Assets	
Investments at fair value through profit or loss	608,749
Net current assets	17,833
Total assets less current liabilities	626,582
Creditors - amounts falling due after one year	(110,163)
Total net assets	516,419
Called up share capital	27,182
Share premium account	33,718
Capital redemption reserve	293
Capital reserve	428,032
Revenue reserve	27,194
Equity shareholders' funds	516,419
Net asset value per ordinary share	475.0p

The net asset value is based on 108,728,464 ordinary shares in issue at 31 July 2016.

THE MERCHANTS TRUST PLC

Summary of Unaudited Results

INCOME STATEMENT
For the six months ended 31 July 2015

	Revenue £'000s	Capital £'000s	2015 Total Return £'000s
			(Note 1)
Net losses on investments at fair value	-	(4,173)	(4,173)
Income from investments	17,277	-	17,277
Other income	506	-	506
Investment management fee	(413)	(768)	(1,181)
Administrative expenses	(340)	(1)	(341)
Net profit (loss) before finance costs and taxation	17,030	(4,942)	12,088
Finance costs: interest payable and similar expenses	(1,659)	(3,041)	(4,700)
Net profit (loss) on ordinary activities before taxation	15,371	(7,983)	7,388
Taxation	-	-	-
Net profit (loss) attributable to ordinary shareholders	15,371	(7,983)	7,388
Earnings (loss) per ordinary share (Note 4) (basic and diluted)	14.14p	(7.34p)	6.80p

BALANCE SHEET
As at 31 July 2015

	2015 £'000s
Fixed Assets	
Investments at fair value through profit or loss	661,295
Net current assets	5,422
Total assets less current liabilities	666,717
Creditors - amounts falling due after one year	(110,368)
Total net assets	556,349
Called up share capital	27,182
Share premium account	33,718
Capital redemption reserve	293
Capital reserve	468,272
Revenue reserve	26,884
Equity shareholders' funds	556,349
Net asset value per ordinary share	511.7p

The net asset value is based on 108,728,464 ordinary shares in issue at 31 July 2015.

BALANCE SHEET As at 31 January 2016	**£'000s**
Fixed Assets	
Investments at fair value through profit or loss	603,369
Net current assets	5,001
Total assets less current liabilities	608,370
Creditors - amounts falling due after one year	(110,262)
Total net assets	498,108
Called up share capital	27,182
Share premium account	33,718
Capital redemption reserve	293
Capital reserve	412,304
Revenue reserve	24,611
Equity shareholders' funds	498,108
Net asset value per ordinary share	458.1p

The net asset value is based on 108,728,464 ordinary shares in issue at 31 January 2016.

THE MERCHANTS TRUST PLC

STATEMENT OF CHANGES IN EQUITY

	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 2016						
Net assets at 1 February 2016	27,182	33,718	293	412,304	24,611	498,108
Revenue profit	-	-	-	-	15,631	15,631
Dividends on ordinary shares (Note 3)	-	-	-	-	(13,048)	(13,048)
Capital profit	-	-	-	15,728	-	15,728
Net assets at 31 July 2016	27,182	33,718	293	428,032	27,194	516,419
Six months ended 31 July 2015						
Net assets at 1 February 2015	27,182	33,718	293	476,255	24,561	562,009
Revenue profit	-	-	-	-	15,371	15,371
Dividends on ordinary shares (Note 3)	-	-	-	-	(13,048)	(13,048)
Capital loss	-	-	-	(7,983)	-	(7,983)
Net assets at 31 July 2015	27,182	33,718	293	468,272	26,884	556,349

THE MERCHANTS TRUST PLC

CASH FLOW STATEMENT

for the six months ended 31 July 2016 and comparative periods

	Six Months to 31 July 2016 £'000s	Six Months to 31 July 2015 £'000s
Operating activities		
Net profit before finance costs and taxation	36,074	12,088
Less: Net (gains) losses on investments at fair value	(19,475)	4,173
Purchase of fixed asset investments	(51,449)	(72,497)
Sales of fixed asset investments	65,865	74,738
Decrease in payables	(118)	(34)
(Increase) decrease in receivables	(401)	435
Net movement in collateral pledged with brokers	(1,134)	503
Net cash inflow from operating activities	**29,362**	**19,406**
Financing activities		
Interest paid	(4,791)	(4,796)
Dividends paid on cumulative preference stock	(21)	-
Dividends paid on ordinary shares	(13,048)	(13,048)
Cash outflow from financing activities	**(17,860)**	**(17,844)**
Increase in cash and cash equivalents	**11,502**	**1,562**
Cash and cash equivalents at the start of the period	5,748	7,520
Cash and cash equivalents at the end of the period	17,250	9,082
Composed of:		
Cash at bank	17,250	9,082

Note 1 – Financial Statements

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 2016 has been extracted from the statutory financial statements for that year which have been delivered to the Registrar of Companies. The auditors' report on those financial statements was unqualified and did not contain a statement under section 498 of the Companies Act 2006.

The total return column of the Income 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.

Allianz Global Investors GmbH, UK Branch (AGI UK), acts as Investment Manager to the company. Details of the services and fee arrangements are given in the latest annual financial report of the company, which is available on the company's website at www.merchantstrust.co.uk.

Note 2 – Accounting Policies

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

The interim financial statements and the net asset value per share figures have been prepared in accordance with FRS 102 using the same accounting policies as the preceding annual accounts.

Note 3 – Dividends on Ordinary Shares

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

	Six months to 31 July 2016 £'000s	Six months to 31 July 2015 £'000s
Third Interim dividend 6.00p paid 24 February 2016 (2015 – 6.00p)	6,524	6,524
Final dividend 6.00p paid 26 May 2016 (2015 – 6.00p)	6,524	6,524
	13,048	13,048

In accordance with FRS 102 Section 32 ' Events After the End of the Reporting Period', dividends payable at the period end have not been recognised as a liability.

Note 4 – Earnings per Ordinary Share

The earnings (loss) per ordinary share have been calculated using a weighted average number of shares in issue during the period of 108,728,464 shares (31 July 2015 – 108,728,464 shares).

Note 5 - Fair Value Hierarchy

The Company has early adopted the 'Amendments to FRS 102 – Fair value hierarchy disclosure', where an entity is required to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Investments and derivative financial instruments are designated as held at fair value through profit or loss in accordance with FRS 102 sections 11 and 12.

FRS 102 as amended for fair value hierarchy disclosures (March 2016) sets out three fair value levels.

Level 1: valued using quoted prices in active markets
Level 2: valued by reference to valuation techniques using observable inputs other than quoted prices included within level 1
Level 3: valued by reference to valuation techniques using inputs that are not based on observable market data

As at 31 July 2016, the financial assets at fair value through profit and loss of £608,234,000 (31 July: £661,155,000; 31 January 2016: £603,155,000) are categorised as follows:

	Level 1 £'000s	**Level 2 £'000s**	**Level 3 £'000s**	**Total £'000s**
Financial assets at fair value through profit or loss at 31 July 2016				
Equity investments	608,721	-	-	608,721
Financial instruments	-	-	28	28
Derivative financial instruments - written call options	(515)	-	-	(515)
	608,206	-	28	608,234
Financial assets at fair value through profit or loss at 31 July 2015				
Equity investments	661,267	-	-	661,267
Financial instruments	-	-	28	28
Derivative financial instruments - written call options	(140)	-	-	(140)
	661,127	-	28	661,155
Financial assets at fair value through profit or loss at 31 January 2016				
Equity investments	603,341	-	-	603,341
Financial instruments	-	-	28	28
Derivative financial instruments - written call options	(214)	-	-	(214)
	603,127	-	28	603,155

For exchange listed equity investments the quoted price is either the bid price or the last traded price depending on the convention of the relevant exchange. For written options the value of the option is marked to market based on traded prices. Financial instruments valued based on valuation techniques level 3 have, in the absence of relevant trading prices or market data, been valued based on the directors' best estimate. There are no investments held which are valued in accordance with level 2.

Note 6 – Status of the Company

The company applied for and was accepted as an approved investment trust for accounting periods commencing on or after 1 February 2013, subject to it continuing to meet eligibility conditions at section 1158 Corporation Taxes Act 2010 and the on-going requirements for approved companies in Chapter 3 Part 2 Investment Trust (Approved Company) (Tax) Regulations 2011 (Statutory Instrument 2011/2999).

Note 7 – Transactions with the Investment Manager and related parties

As disclosed in the annual financial report, the existence of an independent board of directors demonstrates that the company is free to pursue its own financial and operating policies and therefore, under FRS8: Related Party Disclosures, the investment manager is not considered to be a related party. The company's related parties are its directors.

There are no other identifiable related parties as at 31 July 2016, 31 July 2015 and 31 January 2016.

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