15 September 2010

THE MERCHANTS TRUST PLC

Half-yearly financial report
For the six months ended 31 July 2010

Highlights

- Net dividends declared in the first six months of 2010/11 are 11.4p per share, an increase of 1.8%.
- Ordinary shares yield 5.9% at 384p, compared with 3.29% on the FTSE 100 Index at the close of business on 14 September 2010.
- The Net Asset Value per share rose by 1.3% in line with a rise of 1.3% in the FTSE 100 Index and above the fall of 4.0% in the FTSE 350 Higher Yield Index.

Interim management report

Interim dividends
The Board has declared a second quarterly dividend of 5.7p per share, payable on 11 November 2010 to shareholders on the register at close of business on 8 October 2010. The total distribution declared for the first half of 2010/11 is 11.4p net, an increase of 1.8% when compared with the same period last year. On current projections it seems likely that revenue reserves will be used to support distributions in the second half of the Trust's financial 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 2010, the Trust's revenue reserve, after deducting the first and second interim dividends, represented 14.9p per share (2009:18.0p).

Net Revenue
In the first six months of the current year, net revenue rose by 5.6% to 12.33p per share.

Net asset value
The net asset value per ordinary share was 377.5p at 31 July 2010. This represents an increase of 1.3% when compared with the equivalent figure at 31 January 2010 - the end of the last financial year. Over the same period the FTSE 100 Index rose by 1.3%, whilst the FTSE 350 Higher Yield Index fell by 4.0% (Capital Return) as high yielding shares lagged the market overall.

Material events and transactions

Board Changes

Sir Hugh Stevenson retired as Chairman at the Annual General Meeting on 11 May 2010 after nine years in office. Lord Sassoon succeeded him for a short time but then he accepted a ministerial post in the new government on 20 May and therefore resigned from the Board. On behalf of the Board and all our shareholders I would like to thank Hugh and James for helping steer the Company through the difficult economic and market environments of the last several years. In accordance with the Board's succession plan I became Chairman on 20 May.

Mike McKeon was appointed as Chairman of the Audit Committee on 11 May 2010 and Henry Staunton was appointed as the Senior Independent Director on 20 May 2010.

In the six month period ended 31 July 2010 the following material events and transactions have taken place.

At the Annual General Meeting of the Company, all the resolutions put to shareholders were passed.

The third quarterly dividend of 5.6p per share was paid on 19 February 2010 to shareholders on the register on 22 January 2010.

A final dividend of 5.7p per share was paid on 14 May 2010 to shareholders on the register on 16 April 2010. The total paid and declared for the year ended 31 January 2010 was 22.5p.

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

The first quarterly dividend for the year ending 31 January 2011 of 5.7p per share was paid on 20 August 2010 to shareholders on the register on 23 July 2010.

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 2010 which can be found on the website at www.merchantstrust.co.uk . 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.

Derivatives Strategy

The Trust operates a strategy of selectively writing (selling) a limited number of call options in order to generate additional income. Call options are only written on shares held within the Trust (covered calls) with a maximum exposure of 20% of gross assets. The buyer of the call option has the right to purchase the underlying shares off the Trust at the agreed "strike" price within a certain period. In exchange for this right the buyer pays the Trust an option premium. Risks from this strategy are limited but the primary risk is that the option is exercised when the shares are trading above the strike price and the Trust suffers a notional "opportunity" cost as it could otherwise have sold the shares for a higher price.

Prospects

The economic outlook remains uncertain. Policymakers continue to walk a fragile tightrope between deflation and depressed growth on the one hand, and rising inflation on the other which in time can lead to stagflation. European countries have generally adopted austerity measures to control deficits. The USA has so far preferred a strategy of government stimulus to try to grow its way back to health. The UK has firmly moved into the European camp post the election.

It remains to be seen which strategy will prove more successful. Our central expectation remains that economies will generally grow but that growth will be muted and below trend. The outlook for the UK is similar to the USA and much of Europe. The public sector will decline with lower spending and job shedding, whilst tax rises will continue to pressure consumer confidence. The corporate sector however looks stronger after a period of retrenchment and balance sheet repair. A gradually recovering corporate sector and a relaxed monetary policy should keep the economy growing but there remains a significant risk of further economic weakness.

At the time of writing the stock market seems to have calmed down from the excessive volatility around the recession but markets remain nervous. Valuations are generally low although earnings multiples are now based upon recovered profitability leaving less scope for further profit recovery. On balance equities look reasonable value, with the FTSE 100 yielding 3.29%, and seem to be more attractive than government bonds or cash offering very limited returns. The UK equity market, especially the FTSE 100, is essentially exposed to global economic dynamics far more than to the domestic economy.

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 the Disclosure and Transparency Rule 4.2.8 R.

The half-yearly financial report was approved by the Board on 15 September 2010 and the above responsibility statement was signed on its behalf by the Chairman.

Simon Fraser
Chairman

155 Bishopsgate
London EC2M 3AD

Fund Manager's Report

Economic and Market Background

Economic progress in the major developed economies this year has been consistent with RCM's central expectation of a muted recovery from the recession. The irresistible forces of "zero" interest rates, "quantitative easing" (printing money) and stimulus spending have met the immovable objects of huge government and consumer debts, depressed asset prices and weak confidence. Economic leading indicators were strong at the start of the year but moderated progressively during the period. However the early strength of these indicators largely reflected the extremely depressed comparative levels of activity in early 2009, when economies were experiencing severe recessions, rather than buoyant underlying conditions, so some moderation was expected.

Early in the period the USA seemed to be witnessing stronger momentum than Europe. The Eurozone was rocked by sovereign debt fears in Greece and other Southern European countries, which led to Euro currency weakness, a major EU and IMF bailout package and the introduction of austerity packages in Greece and elsewhere. However in the latter weeks, American growth seemed to be slowing whilst Germany in particular reported more robust economic data, boosted by capital equipment exports. In summary, economic data has been mixed and inconclusive. Emerging markets generally continued to show robust growth although there were some concerns about a slowdown in China's growth as authorities imposed lending constraints on the banking system and discouraged property speculation to control inflationary risks.

The UK witnessed an historic general election resulting in a Conservative-Liberal coalition which has introduced one of the toughest budgets on record. The coalition has so far held firm but the hard details on spending cuts have not yet all emerged and most of the measures, including the announced tax rises, are to be phased in. The UK economy returned to growth in the first half of 2010 with the closely watched unemployment claimant count reducing. CPI inflation however, at around 3% in June, remained stubbornly above the Bank of England's 2% target, prompting one member of the Monetary Policy Committee to vote for an interest rate increase.

Although the economic newsflow was mixed and there were widespread concerns about government finances, corporate newsflow was generally good. Most cyclical businesses reported significant improvements in their profitability compared to the previous year and the financial position of the corporate sector is generally sound. Against this background, the FTSE 100 Index showed a modest gain in the period closing at 5258 for a 3.4% total return, split broadly evenly between capital and income. However the market was quite volatile, rising to 5800 in mid April before falling to 4800 at the beginning of July and then recovering again. These gyrations, whilst notable, were modest compared to the wild swings in the previous two years.

Most of the key sector moves were driven by individual corporate issues rather than broader trends. At the industry level the best performance came from the small technology sector which rose over 60%, reflecting the re-rating of semiconductor design company ARM. There were few major sectors producing double digit total returns. The highlights were media up 21%, mobile telecoms up 15% and banks up 11%. Hardly any sectors produced negative returns. The most significant decline was in the oil and gas producers, down 11% as BP shares fell by 30% on the Gulf of Mexico disaster. The healthcare equipment sector fell 12%, pulled down by Smith & Nephew. Food retailers, household goods and fixed line telecoms all recorded modest single digit percentage declines.

The FTSE 350 Higher Yield Index underperformed the FTSE 100 Index significantly, posting a total return of -1.2%. The large weighting in BP in this index, averaging 14% during the half year, wiped about 5% off the total index return.

Performance

The Trust's gross portfolio return was ahead of both the FTSE 100 and the FTSE 350 Higher Yield Indices in the period. Performance was more driven by individual company factors than in the prior two years and less driven by industry sector or wider thematic issues.

A return of corporate activity to the market benefitted the portfolio. Two of the three largest contributors to performance compared to the FTSE 100 Index were Arriva and Brit Insurance, which received takeover offers, whilst International Power was involved in merger discussions. Other important drivers were large holdings in Reed Elsevier and Vodafone which both gained around 15% from relatively depressed levels, and Compass which rose 25%. Two of the more cyclical medium sized companies, Premier Farnell and Melrose, also aided performance with total returns around 40% on improved confidence in their growth prospects. Finally within the top ten performance contributors, not owning BG, Tesco or Imperial Tobacco helped the portfolio's relative return as these stocks posted losses and restrained the index performance.

Looking at the negative performance factors, eight of the top ten negative stock contributors were stocks that the Trust did not own at all or had less than the index position. As these stocks rose, they boosted the index but held back the relative performance of the Trust. In particular, the most significant thematic driver to the index's performance was in the banks sector where Standard Chartered, Lloyds, Barclays and RBS all gained over 20%. The Trust had modest or zero holdings in these shares, partly due to their unattractive dividend yields. Outside of banks, not owning British Sky Broadcasting (subject to a takeover approach from its leading shareholder News Corporation) Rio Tinto, SAB Miller and Cairn Energy also proved detrimental. Elsewhere the large holdings in BAE Systems and GlaxoSmithKline were also negative factors as these relatively defensive companies, posted single digit share price falls.

Portfolio Changes

Investment activity was quieter in this period than the high levels reported in both of the two previous years as lower economic and stock market volatility produced fewer compelling opportunities to switch holdings. In addition we have placed a strong emphasis on business quality and balance sheet strength in what is likely to be a protracted period of modest economic growth. This has discouraged us from introducing certain lowly priced companies that might be attractive in a more benign environment. Nonetheless, we added two new names to the portfolio and completely sold out of four positions. We also took advantages of sentiment swings and newsflow to make additions or reductions to existing holdings.

The two new holdings were both in the media sector, Daily Mail & General Trust (DMGT) and United Business Media (UBM). Media companies often comprise a combination of resilient activities with high levels of regular subscription income, such as business critical information and scientific or legal journals, with more cyclical activities like advertising and exhibitions. Whilst industries that directly depend upon consumer spending or government expenditure face clear headwinds, media companies should be better positioned. This is because they are supplying services to the corporate sector which has significantly restructured through the recession and is financially stronger. Even though many corporates are still cautious about committing to large capital investment projects, they are likely to increase spending on day to day activities that can boost their sales such as advertising, marketing and trade shows. Indeed we are starting to see a recovery in advertising demand as businesses fight harder to persuade customers to buy their products and services.

DMGT and UBM share many similarities. They both have traditional print activities - local newspapers and trade magazines - which have been under structural pressure from the internet and have historically made the companies less attractive investments (The DMGT national newspaper operations are of higher quality). However these activities now represent less than 10% of profits and thus will no longer be a significant drag on growth. Both companies have a broad portfolio of businesses but have been significantly restructured to focus on more attractive activities. DMGT has particularly focused on data businesses and consumer internet businesses like "FindaProperty" and "Jobsite" whilst UBM has built a strong exhibitions business with a particular bias to emerging markets. They both stand to benefit from a recovery in corporate spending on advertising and exhibitions in their cyclical activities as well as having a core of more resilient businesses. Finally and importantly, the valuations of both businesses were low and did not reflect either the strong quality of their franchises or their recovery and growth potential going forwards.

The four complete sales from the portfolio reflected different drivers. The small position in media business Informa was switched into a larger position in DMGT where we had higher conviction on management strategy and where we expect an earlier recovery in trading due to a different business mix. The bus and rail stock Arriva was sold after receiving a takeover bid from Deutsche Bahn, which was attracted by Arriva's strong European market positions. Halfords, the car parts and bicycle specialist, has been a good and consistent operator despite a generally difficult retail background. We sold the company after a prolonged period of strong performance had pushed the share price to a full valuation. The final sale was Rexam. This beverage can and plastic packaging manufacturer has never quite delivered the high returns that might have been expected from a global industry leader with strong positions in developed and developing markets. We sold the shares after they had a minor rally and reached a fair valuation.

A major feature in the period was the explosion at BP's Deepwater Horizon oil rig in the Gulf of Mexico and the subsequent oil spill and clean up operation. Whilst the Trust started the year with a sizeable holding in BP, this was less than BP represented of the FTSE 100 Index. Initially the share price reaction seemed to be too extreme for what looked like a fairly containable, though tragic accident. Also it seemed unlikely initially that there would be any impact on BP's dividends. In late April and early May we added to the BP holding, believing the shares could recover, and taking the portfolio exposure up towards an index position. Subsequently the full scale of the disaster became apparent, more evidence started to accumulate that human error and possibly negligence had been factors rather than purely mechanical failure, and BP became a political football in the USA. BP announced the suspension of dividends for the remainder of the (calendar) year and the setting up of a $20bn compensation fund. Although the costs may well run over $20bn, BP remains a strong cash generator with a lowly geared balance sheet. With the well capped the shares started to recover in July.

Other investment activity generally consisted of adding to positions as shares fell to lower, more attractive levels, offering higher dividend yields, and reducing positions into strength, as shares approached our assessment of their fair value. Examples of larger purchases included HSBC, BT, Aviva and Reed Elsevier. One particular area of activity was in companies potentially exposed to public sector budget cuts where shares have been heavily de-rated. We added to both BAE Systems and Balfour Beatty in the belief that a valuation of only seven times their annual earnings looked far too cheap under any realistic scenario. These businesses have significant operations overseas and other positive attributes. BAE only has about 20% of sales in the UK with growth prospects in the USA, the Middle East and India in particular. Balfour Beatty has also expanded into America as well as having a major exposure to infrastructure investment where the outlook is far healthier than in general UK construction.

There were two important rights issues in the period. Unlike 2009 when many companies had rights issues to rebuild balance sheets, National Grid raised money to fund infrastructure investment and Resolution needed finance to buy the UK life assurance assets of AXA. In both cases shares fell heavily during their rights issue periods. As well as taking up our rights, we made additional purchases at these depressed levels, building up the exposure to both stocks considerably.

Partial sales included profit taking in a number of medium sized companies that had been strong performers and offered less upside, including Britvic, Inchcape, IG Group, Meggitt, Melrose and Premier Farnell. We also reduced Brit Insurance which was subject to a takeover approach and Vodafone, British American Tobacco, Centrica and Astrazeneca which were among the better performing defensive companies.

Derivatives Strategy
In the six month period, the option writing strategy generated approximately £900,000 of income from option premiums. Only three options were exercised, generating an “opportunity” cost of around £140,000 at the point of exercise. However even this figure overstates the real cost as in two cases, BAE Systems and Reckitt Benckiser, we were able to buy the shares back below the strike price later on, thus more than recovering the notional loss.

Dividends
Apart from the notable exception of BP, dividend trends have generally been encouraging in the period, with many companies lifting their payouts and the risk factors we have identified previously becoming less of a concern. The impact of BP’s suspension of payments will be significant this year. Based upon the number of shares held at the start of the year, BP was expected to generate about £2m of income compared to a total portfolio income of around £23m last year. It now looks like the Trust will only receive around £500,000 from BP for this financial year. Next year remains uncertain. It is anticipated that BP will resume paying the bulk of its previous dividend level but the Trust always has the option to reduce or sell the BP stake and reinvest elsewhere.

The derivative strategy should offset part or all of the loss of income from BP at the overall Trust level. The Merchants Trust’s dividends are decided by the board, taking into account projections of portfolio and other income, the Trust’s reserves and the stated investment objective.

Portfolio Strategy
Our strategy is to continue to favour high yielding companies that can perform well in a period of modest economic growth. This includes many large, multinational, strongly financed businesses operating in relatively resilient industries, such as GlaxoSmithKline, Vodafone, Royal Dutch Shell, SSE and Reed Elsevier. Companies which are capable of delivering above average structural growth should justify a higher rating in the current economic environment and we have sought to buy these when there has also been a strong valuation case. In particular, we have built a significant exposure to businesses with a large presence in emerging markets which should deliver stronger growth. Examples include Unilever, International Personal Finance, Ashmore, WPP and British American Tobacco. Other current themes that have already been mentioned include a preference for media companies amongst cyclicals and also for stocks that have been overly depressed by fears about potential public sector spending cuts. Importantly, these investments are driven by detailed analysis of the individual companies rather than primarily by “top down” themes.

Simon Gergel
RCM (UK) Limited

THE MERCHANTS TRUST PLC

Twenty Largest Equity Holdings as at 31 July 2010

	Valuation £'000s	% of Total Assets*	Sector
Royal Dutch Shell 'B' Shares	41,035	8.16	Oil & Gas Producers
GlaxoSmithKline	34,874	6.93	Pharmaceuticals & Biotechnology
Vodafone	33,518	6.66	Mobile Telecommunications
HSBC	33,151	6.59	Banking
BP	27,188	5.40	Oil & Gas Producers
AstraZeneca	20,616	4.10	Pharmaceuticals & Biotechnology
Scottish & Southern Energy	18,874	3.75	Electricity
British American Tobacco	18,414	3.66	Tobacco
BAE Systems	18,322	3.64	Aerospace & Defence
National Grid	17,955	3.57	Gas, Water & Multiutilities
BHP Billiton	17,368	3.45	Mining
Unilever	16,027	3.19	Food Producers
Reed Elsevier	16,001	3.18	Media
Aviva	13,667	2.72	Life Insurance
BT	11,995	2.38	Fixed Line Telecommunications
Centrica	7,752	1.54	Gas, Water & Multiutilities
Compass	7,420	1.48	Travel & Leisure
Barclays	7,387	1.47	Banking
Hammerson	7,164	1.43	Real Estate Investment Trusts
International Personal Finance	6,674	1.33	General Financial
	375,402	74.63	

* Total Assets include current liabilities

Portfolio Analysis as at 31 July 2010

	%
Listed equities	95.64
Unlisted equities	0.01
UK call options*	(0.09)
Net current assets	4.44
Total Assets	100.00

*As at 31 July 2010 call options are written over 9.12% of the portfolio, generating income of £902,373.

THE MERCHANTS TRUST PLC

Summary of Unaudited Results

INCOME STATEMENT
For the six months ended 31 July 2010

	Revenue £'000s	Capital £'000s	2010 Total Return £'000s
			(Note 2)
Net gains on investments at fair value	-	7,472	7,472
Income from investments	14,052	-	14,052
Other income	1,012	-	1,012
Investment management fee	(309)	(574)	(883)
Investment management fee VAT refund	-	-	-
Administrative expenses	(346)	(2)	(348)
Net return before finance costs and taxation	14,409	6,896	21,305
Finance costs: interest payable and similar charges	(1,679)	(3,081)	(4,760)
Net return on ordinary activities before taxation	12,730	3,815	16,545
Taxation	-	-	-
Net return attributable to Ordinary Shareholders	12,730	3,815	16,545
Net return per Ordinary Share (Note 1)			
(basic and diluted)	12.33p	3.70p	16.03p

BALANCE SHEET As at 31 July 2010	2010 £'000s
Investments at fair value through profit or loss	481,165
Net current assets	21,882
Total Assets Less Current Liabilities	503,047
Creditors - amounts falling due after one year	(113,418)
Total Net Assets	389,629
Called up Share Capital	25,803
Share Premium Account	8,523
Capital Redemption Reserve	293
Capital Reserve	327,872
Revenue Reserve	27,138
Shareholders' Funds	389,629
Net Asset Value per Ordinary Share	377.5p

The Net Asset Value is based on 103,213,464 Ordinary Shares in issue at 31 July 2010.

<u>**THE MERCHANTS TRUST PLC**</u>

Summary of Unaudited Results

INCOME STATEMENT
For the six months ended 31 July 2009

	Revenue £'000s	Capital £'000s	2009 Total Return £'000s (Note 2)
Net gains 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

	2009 £'000s
Investments at fair value through profit or loss	432,410
Net current assets	18,866
Total Assets Less Current Liabilities	**451,276**
Creditors - amounts falling due after 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 Reserve	273,040
Revenue Reserve	30,165
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.

THE MERCHANTS TRUST PLC

INCOME STATEMENT
for the year ended 31 January 2010

	Revenue £'000s	Capital £'000s	2010 Total Return £'000s
			(Note 2)
Net gains on investments at fair value	-	79,416	79,416
Income from investments	22,995	-	22,995
Other income	692	-	692
Investment management fee	(561)	(1,041)	(1,602)
Investment management fee VAT refund	416	773	1,189
Administrative expenses	(659)	(4)	(663)
Net return before finance costs and taxation	**22,883**	**79,144**	**102,027**
Finance costs: interest payable and similar charges	(3,385)	(6,206)	(9,591)
Net return on ordinary activities before taxation	**19,498**	**72,938**	**92,436**
Taxation	-	-	-
Net return attributable to Ordinary Shareholders	**19,498**	**72,938**	**92,436**
Net return per Ordinary Share (Note 1) (basic and diluted)	18.91p	70.73p	89.64p

BALANCE SHEET
As at 31 January 2010

	2010 £'000s
Investments at fair value through profit or loss	488,314
Net current assets	9,891
Total Assets Less Current Liabilities	498,205
Creditors - amounts falling due after one year	(113,458)
Total Net Assets	384,747
Called up Share Capital	25,803
Share Premium Account	8,523
Capital Redemption Reserve	293
Capital Reserve	324,057
Revenue Reserve	26,071
Shareholders' Funds	384,747
Net Asset Value per Ordinary Share	372.8p

The Net Asset Value is based on 102,813,464 Ordinary Shares in issue at 31 January 2010.

THE MERCHANTS TRUST PLC

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 2010						
Net Assets at 31 January 2010	25,803	8,523	293	324,057	26,071	384,747
Revenue Return	-	-	-	-	12,730	12,730
Dividends on Ordinary Shares	-	-	-	-	(11,663)	(11,663)
Capital Return	-	-	-	3,815	-	3,815
Net Assets at 31 July 2010	25,803	8,523	293	327,872	27,138	389,629
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
Year ended 31 January 2010						
Net Assets at 31 January 2009	25,703	7,527	293	251,119	30,162	314,804
Revenue Return	-	-	-	-	19,498	19,498
Dividends on Ordinary Shares	-	-	-	-	(23,589)	(23,589)
Capital Return	-	-	-	72,938	-	72,938
Shares issued during the year	100	996	-	-	-	1,096
Net Assets at 31 January 2010	25,803	8,523	293	324,057	26,071	384,747

THE MERCHANTS TRUST PLC

CASH FLOW STATEMENT

for the six months ended 31 July 2010 and comparative periods

	Six Months to 31 July 2010 £'000s	Six Months to 31 July 2009 £'000s	Year to 31 January 2010 £'000s
Net cash inflow from operating activities	**11,571**	**14,268**	**25,231**
Return on investment and servicing of finance			
Interest paid	(4,780)	(4,812)	(9,563)
Dividends paid on Preference Stock	(21)	(21)	(43)
Net cash outflow from servicing of finance	**(4,801)**	**(4,833)**	**(9,606)**
Capital expenditure and financial investment			
Purchase of investments	(50,170)	(56,874)	(112,116)
Sale of investments	65,595	60,652	113,384
Net cash inflow from capital expenditure and financial investment	**15,425**	**3,778**	**1,268**
Equity dividends paid	**(11,663)**	**(12,028)**	**(23,589)**
Net cash inflow (outflow) before financing	**10,532**	**1,185**	**(6,696)**
Proceeds from issue of Ordinary Shares	-	1,116	1,116
Share issue costs	-	(20)	(20)
Net cash inflow from financing	**-**	**1,096**	**1,096**
Increase (Decrease) in cash	**10,532**	**2,281**	**(5,600)**

Reconciliation of Return on Ordinary Activities before Taxation to Net Cash Flow from Operating Activities

Total return before finance costs and taxation*	21,305	38,722	102,027
Net gains on investments at fair value	(7,472)	(24,711)	(79,416)
	13,833	14,011	22,611
(Increase) Decrease in debtors	(2,181)	(136)	2,478
(Decrease) Increase in creditors	(81)	393	142
Net cash inflow from operating activities	**11,571**	**14,268**	**25,231**

Reconciliation of net cash flow to movement in net debt

Net cash inflow (outflow)	10,532	2,281	(5,600)
Decrease in long term loans	40	20	15
Movement in net funds (debt)	10,572	2,301	(5,585)
Net debt brought forward	(104,547)	(98,962)	(98,962)
Net debt carried forward	**(93,975)**	**(96,661)**	**(104,547)**

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

THE MERCHANTS TRUST PLC

NOTES

Note 1

The returns per Ordinary Share have been calculated using a weighted average number of shares in issue during the period of 103,213,464 shares (31 July 2009 - 103,018,989 shares; 31 January 2010 – 103,117,026 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 £208,000 (31 July 2009 - £267,000; 31 January 2010 - £648,000) and transaction costs on sales which amounted to £85,000 (31 July 2009 - £80,000; 31 January 2010 - £145,000).

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 2010 £'000s	Six months to 31 July 2009 £'000s	Year to 31 January 2010 £'000s
First Interim dividend 5.60p paid 19 August 2009	-	-	5,780
Second Interim dividend 5.60p paid 12 November 2009	-	-	5,780
Third Interim dividend 5.60p paid 19 February 2010 (2009 – 5.60p)	5,780	5,757	5,758
Final dividend 5.70p paid 14 May 2010 (2009 – 5.60p)	5,883	5,757	5,757
Special dividend £Nil (2009 – 0.50p)	-	514	514
	11,663	12,028	23,589

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 2010 £'000s	Six months to 31 July 2009 £'000s	Year to 31 January 2010 £'000s
Third Interim dividend 5.60p paid 19 February 2010	-	-	5,780
Final dividend 5.70p paid 14 May 2010	-	-	5,883
First Interim dividend 5.70p paid 20 August 2010 (2009 - 5.60p)	5,883	5,780	-
Second Interim dividend 5.70p payable 11 November 2010 (2009 - 5.60p)	5,883	5,780	-
	11,766	11,560	11,663

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

Note 6

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 2010 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.

In accordance with the UK's disclosure requirements for listed companies, the Company is required to make 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.

This half-yearly financial report, which will include a Fund Managers' Report, will be sent to Shareholders shortly and made available to the public at the Registered Office of the Company, 155 Bishopsgate, London, EC2M 3AD.

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