

28 March 2019

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THE MERCHANTS TRUST PLC

Final Results for the year ended 31 January 2019

The following comprises extracts from the company's annual report for the year ended 31 January 2019. The full annual report is being made 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

This year marks the 130 year anniversary of the formation of The Merchants Trust. The company was founded in 1889 by some of the leading financiers and lawyers of the day and was set up to provide investors with an opportunity to benefit from nascent international growth industries, such as those participating in the North American railway boom. Over time, the company's mandate has evolved to reflect both changing market conditions and investment opportunities.

It is a great privilege to be associated with the company as it celebrates 130 years. Much has changed over its timeline since 1889, with the company successfully navigating a variety of crises and challenging market conditions. Since the late 1980s, Merchants' investment universe has been primarily high-yielding, well-established UK companies (including some of the world's largest and best-known multinationals). However, one thing that has not changed is the company's overall objective: to deliver capital growth and healthy dividends to its shareholders. Income remains a theme for the company and its investors now, just as it was back in 1889.

Highlights of the year

- 1889 - 2019: celebrating 130 years
- Dividend hero: 37 consecutive years of dividend growth
- Dividend growth of nearly 5%, ahead of inflation, and yield remains well above the sector average
- Earnings growth +8.6%
- Overall, a challenging year for markets

Your board is proud of the company's record of paying a rising dividend to shareholders each year, so I am delighted to announce that, following our Annual General Meeting, Merchants will have achieved 37 consecutive years of dividend growth. The company continues to offer one of the highest dividend yields in its sector.

A challenging year with sharp moves in individual shares

This has been an unusual year in which investment markets have been particularly volatile, reflecting a succession of macroeconomic concerns and geopolitical factors. Merchants' overall performance has been driven by sharp moves in individual shares, especially at the smaller market cap level. There have been a large number of positive and negative contributions to performance: you will find more information, including stock selections and portfolio changes, in the Investment Manager's Review on page 16 of the annual report.

In a challenging year overall for stock markets around the world, Merchants' UK equity portfolio outperformed its benchmark index, the FTSE All-Share by 0.3%, over the year to 31 January 2019, but ended in negative territory. The company's Net Asset Value (NAV) return was -5.2% compared with the benchmark total return of -3.8% due to the impact of gearing in a falling market. Please refer to the attribution analysis on page 13 of the annual report.

The company's share price fell by 3.5% over the year from 488p to 471p which is less than the fall in the NAV as the discount narrowed during the year. With dividends reinvested, on a total return basis, the value of the shares increased by 1.7%.

37 consecutive years of dividend growth

The board is recommending a final dividend of 6.6p (2018: 6.3p) which will increase the total dividend for the year to 26.0p (2018: 24.8p), a rise of 4.8%. Significantly, this will be the 37th consecutive year in which we have grown the dividend and we are extremely proud of our continued recognition as an AIC 'Dividend Hero'; this is an elite group of investment trust companies that have increased their dividends each year for 20 years or more. The board acknowledges that income is an important reason why investors choose to buy Merchants shares and it is the board's aim to continue increasing dividends in a sustainable and measured way.

The board monitors the company's yield relative to other investment trusts in the UK Equity Income sector. At 31 January 2019, the company's dividend yield of 5.5% ranked Merchants well above the sector average of 4.0%.

The final dividend of 6.6p will be paid on 22 May 2019 to shareholders on the register on 12 April 2019. The dividend is fully covered by the revenue generated by the company's portfolio and there are significant reserves. Following the debt refinancing undertaken at the end of the 2018 financial year, the company's average interest rate reduced from 8.5% to 6.1%. This reduction in costs, combined with improving income growth in the portfolio, presented the possibility of growing the dividend faster - and ahead of inflation. Pleasingly this aim has been achieved during the current financial year. These factors have also resulted in earnings per share (EPS) showing a steady improvement over the year, reaching a record level of 27.7p for the Company as it celebrates its 130th year.

Gearing

Investment Trusts like Merchants aim to enhance their investment returns by borrowing money to buy more assets (known as 'gearing'). The company has gearing in the form of long term debt amounting to £111 million, all deployed in the market for investment purposes. The gearing comprises a long-term debenture maturing in 2023, secured bonds maturing in 2029 and loan notes maturing in 2052. Overall, our gearing averaged 19.8% throughout the year, compared to 19.7% last year. At the end of the year, our gearing level was 20.5% compared to 17.9 % at 31 January 2018.

This year's annual report

The format of the company's annual report continues to evolve, as part of our ongoing quest to enhance it. The board remains conscious of the ever-increasing numbers of private individuals who have chosen to buy Merchants shares in recent years, so every effort is made to ensure that the content is interesting, relevant and jargon-free. This year's report features an expanded and improved Key Performance Indicators (KPI) section which we hope shareholders will find useful. Once again we have included case studies as well as profiles on the company's Top 20 holdings, as these have proven popular. Refining the look, feel and content of the report is an ongoing commitment and we welcome feedback from all shareholders, as well as suggestions that we can consider for future years.

Board succession

As we announced last year, my intention is to retire from the Merchants Board during the course of this year, having been on the board for ten years and Chairman for nine. Sybella Stanley as Senior Independent Director has been leading the search for my replacement supported by search consultants Spencer Stuart and Nurole.

Following our search, I am very happy to say that Colin Clark will join our board in June and become Chairman at the beginning of September. Colin has extensive fund management and board experience. He worked for Mercury Asset Management for many years both running portfolios and distribution. More recently he has been on the main board of Standard Life where he was also head of distribution. He retired from Standard Life following the merger with Aberdeen Asset Management. Colin is currently on the board of AXA Investment Managers and Rathbone Brothers Plc.

It has been a great privilege to chair Merchants Trust over the course of its thirteenth decade. It is a very well managed trust with a real purpose in producing significant income from a portfolio of UK equities. I would like to thank all our shareholders for your support over this period and I wish the trust all the very best for the future.

Strategy and Strategic Report

At our annual strategy day last year, we took a more in-depth look at the matters we consider at each board meeting, including our objectives and key performance indicators, together with other topics including a further review of our gearing and how it is financed.

Issue of new shares and buyback of shares

Over the year we saw the company's share price mainly trade at a discount to its Net Asset Value, but the discount was not large enough to make buying back shares good value for shareholders. No shares were therefore bought back. Later in the year the shares traded at a premium or close to par value but not for a sustained period and so there was no call to issue new shares to manage the market's demand. Our policy continues to be to issue shares at a premium to NAV, cum income with debt at market value, at a price that is not dilutive to existing shareholders, to meet natural demand in the market and conversely, to buy back shares either for cancellation or for holding in treasury. Prior to a decision to buy back shares, the board would need to consider the discount to be significant, taking gearing into account, and deem a buyback to be good relative value. Any shares issued or sold from treasury will be at a premium to the NAV to ensure that existing shareholders benefit from the transaction.

Since the year end we have issued 200,000 new shares at an average premium of 1.0%.

Creating demand for Merchants shares

1. Marketing communications

As a board, we are keen to grow the number of individual shareholders that hold Merchants shares and our marketing activities are focused on achieving this. As always, we consider carefully the level of marketing expenditure that should be allocated to targeted and costeffective marketing activity. The Merchants marketing programme includes electronic communications with existing and potential investors and substantial liaison with national and industry journalists, since positive press coverage can be highly influential.

Targeted online and print advertising is also undertaken on a very selective basis, where the potential benefits are judged to merit the cost. Recent campaign activity has focused on the company's 130-year history as well as its 'Dividend Hero' status, using 'As focused on dividends as you are' as its headline. We have also ventured into the podcast arena, with the introduction of 'A Value View', where the company's portfolio manager, Simon Gergel, shares his insights on the very latest developments affecting the UK stock market. These broadcasts have been very well received and are available through the Merchants website or by subscribing via a mobile device.

As previously noted, online trading platforms have largely replaced the traditional stockbroker as the destination for investors wishing to buy shares in recent years and our communication programme targets both platform providers and investors. Marketing activity has been instrumental in creating sustained and ongoing demand for Merchants shares through these platforms. Approximately 46.7% (2018: 41.7%) of the company's shares are now held by investors on these platforms, an increase of 4.9% in just one year.

We are keen to sustain this demand since this can reduce discount levels and ultimately lower running costs, which benefits all of the company's shareholders.

2. Meeting shareholders

As part of our strategy to keep the company 'front of mind' for existing and potential shareholders, the portfolio manager and other members of the Allianz Global Investors team dedicate considerable time to promoting the company around the country, in a comprehensive schedule that targets institutions, private investors and the wealth manager community. Roadshow activity is a proven way of maintaining relationships with key analysts and holders of the company's shares, as well as encouraging share purchases from new buyers.

Online access for Merchants investors

The Merchants Trust website, www.merchantstrust.co.uk, continues to evolve and is at the heart of our marketing communications strategy. As well as the very latest performance statistics, visitors to the site can also access a wealth of information, including: 'Broadcast Hub' audio and video interviews with the portfolio manager; useful information on platform investing; educational content; and a complete literature library of current and historical documents. Since 2019 is such a significant anniversary year for the company, we are adding fresh content reflecting the company's history, including an interactive timeline that travels back in time to 1889.

Via the site, visitors can sign up to receive monthly Merchants Trust fact sheets by email, as well as other useful information. In May 2018, the General Data Protection Regulation (GDPR) became law. Under this regulation, shareholders must provide 'opt-in' consent to receive communications. If you have not already provided consent but would like to receive our targeted communications, such as the monthly Merchants fact sheet and commentary, you can opt in via the website – simply click on 'Sign up' on the home page.

Key Information Document

As detailed in last year's annual report, the Key Information Document (KID) is a standardised pan-European document that came into force in January 2018 for investment trusts and many other investment products operating under the Packaged Retail and Insurance-based Investment Products (PRIIP) Regulation. The KID contains product, risk, charges and other information. It is a regulatory requirement that you are provided with a KID before you invest, and you are required to declare that you have seen the latest KID when you make your investment.

Industry concerns that disclosures mandated for inclusion could be unhelpful for investors have gathered pace over the year. Specific concern surrounds the methodology for both the investment performance and risk sections. The Association of Investment Companies has been very vocal in its criticism of this regulatory document and has lobbied for KIDs to be suspended while the problems are addressed. The industry is encouraged that the Financial Conduct Authority (FCA) has taken on board the strong concerns raised and has agreed that the summary risk indicators and performance scenarios in KIDs can be misleading, and that the regulation could cause consumer harm if problems are not addressed. With this in mind, your board considers it worth reminding prospective investors in the company not to rely solely on the KID when making their investment decision.

Annual General Meeting

We strongly encourage shareholders to attend the Annual General Meeting of the company. This will be held on Thursday, 16 May 2019 at 12 noon at Grocers' Hall, Princes Street, London EC4Y 0JP. As well as routine business, this year we will take the opportunity of toasting The Merchants Trust on the occasion of its 130th birthday.

Your board is responsible for safeguarding the interests of all shareholders. We are keen to remind you that being a shareholder gives you the right to vote on issues that affect the company, such as director elections and any amendments to policy. Irrespective of whether or not you are able to attend the AGM, Shareholders are encouraged to make their voices heard by voting on ordinary and special business matters, as detailed on the voting instruction card enclosed with this report.

For those shareholders unable to attend, filmed AGM video content will be added to the Merchants dedicated website as soon as it becomes available.

Outlook

When I wrote to shareholders in late September with the half year results, I noted both the increasing risk profile for the UK economy and the increasing volatility being experienced across global stock markets. This was before we experienced substantial market swings in the fourth quarter of 2018 which saw the FTSE All-Share Index tumble by approximately 10% (total return), before recovering somewhat in January. This was a period of quite extreme moves at both sector and stock level.

We remain in a period of heightened geopolitical and economic risk. However, whilst there has been volatility in share prices, the fundamentals of most companies in Merchants' portfolio remain robust, with a resilient outlook for profits and dividends, albeit that the economic outlook is more uncertain than a year ago.

Short-term, external setbacks have always challenged the company over its 130 years. In this landmark year, we are able to look back and acknowledge that, over time, the company has successfully delivered capital and income returns through good times and bad. The board continues to believe that the Portfolio Manager and his team's policy of investing in what they believe in, is a sound one. They are aiming to build a portfolio comprising solid businesses with good prospects for growth, attractive dividends and valuable assets that are priced at a level where they believe they can deliver good total returns for shareholders. This means that they are primarily investing on a 'bottom-up basis' rather than identifying opportunities through sector allocation.

Looking ahead we think it is vital to continue doing what we've always done at The Merchants Trust. In spite of the mixed economic and political signals all around us, there are good stock opportunities to be found. As Simon Gergel has stated in his update, UK shares are relatively cheap at the time of writing and this is potentially a good environment for active investors like AllianzGI. By focusing on individual stocks with strong fundamentals that may be temporarily out of favour, the team can continue investing successfully in a diverse portfolio of investments that enables investors to achieve both capital growth and healthy dividends over time.

Risk Policy

The board operates a risk management policy to ensure that the level of risk taken in pursuit of the board's objectives and in implementing its strategy are understood. The principal risks identified by the board are listed on pages 46 to 49 of the annual report, together with the actions taken to mitigate them and set out in the table on page 47 of the annual report. The board has carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity. The process by which the directors monitor risk is described in the Audit Committee Report on page 63 of the annual report.

Risk mapping

The Risk Map in the annual report on page 47 shows the board's assessment of the principal risks facing the company. These have been grouped into three types: Investment and Portfolio Risks; Business and Strategy Risks; and Operational Risks. Risks are rated as 'red' or 'high' when the risk is of concern and sufficient mitigation measures are not possible or not yet in place; 'amber' or 'moderate' when the risk is of concern but sufficient measures are defined and have been or are being implemented; and 'green' or 'acceptable' when the risk is acceptable and no further measures are needed. The nature of the company's business means that a certain amount of risk must be taken for its objectives to be met, therefore it is not surprising that portfolio risk types earn amber ratings.

Principal risks

A more detailed version of the chart is reviewed and updated by the audit committee at least twice yearly. This takes the form of a matrix which sets out risk types, key risks identified and their status, the controls and mitigation in place to address these risks, together with the evidence of controls and gives an assessment of the risk using a traffic-light system, as shown at the bottom of the chart, to confirm the outcome of the assessment of the risk .

The principal risks are broadly unchanged from the previous year. Those identified as having the highest impact are market decline, investment strategy and investment performance. However, Market decline and investment performance risks are shown to have increased in likelihood as shown by the arrows on the risk chart in the annual report.

Risk appetite

The board identifies risks, considers controls and mitigation, the probability of the event, and assesses residual risk. It then evaluates whether its risk appetite is satisfied. The board confirms for the year ended 31 January 2019 that its assessment of risk is in line with its risk appetite for all key risks.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice including FRS102 "The Financial Reporting Standard applicable in the UK & Republic of Ireland" (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK Accounting Standards have been followed, comprising FRS 102, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors each have a duty to make themselves aware of any "relevant audit information" and ensure that the auditors have been made aware of that information. A disclosure stating that each director has complied with that duty is given in the Directors' Report on page 58 of the annual report.

The directors are responsible for ensuring that the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

The financial statements are published on www.merchantstrust.co.uk, which is a website maintained by the company's investment manager, AllianzGI. The directors are responsible for the maintenance and integrity of the company's website. The work undertaken by the auditors does not involve consideration of the maintenance and integrity of the website and, accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement under Disclosure and Transparency Rule 4.1.12

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

- the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the company;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.

For and on behalf of the board

Simon Fraser
Chairman
28 March 2019

For further information contact:

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LISTED EQUITY HOLDINGS as at 31 January 2019

Name	Value (£)	% of listed holdings	Principal Activities
GlaxoSmithKline	34,722,522	5.7	Pharmaceuticals & Biotechnology
Royal Dutch Shell B	32,881,886	5.3	Oil & Gas Producers
Imperial Brands	29,037,500	4.7	Tobacco
HSBC Holdings	27,351,282	4.4	Banks
BHP*	23,691,246	3.8	Mining
BP	22,871,226	3.7	Oil & Gas Producers
BAE Systems	22,382,183	3.6	Aerospace & Defence
Legal & General	22,178,700	3.6	Life Insurance
SSE	18,068,775	2.9	Electricity
Standard Life Aberdeen	17,981,531	2.9	Financial Services
Top Ten Holdings	251,166,851	40.6	
Landsec	16,485,663	2.7	Real Estate Investment Trusts
Prudential	16,409,250	2.6	Life Insurance
Barclays	15,976,180	2.6	Banks
Meggitt	15,551,370	2.5	Aerospace & Defence
Greene King	15,498,282	2.5	Travel & Leisure
St. James's Place	15,101,800	2.4	Life Insurance
Tate & Lyle	15,062,820	2.4	Food Producers
Pennon Group	14,924,144	2.4	Gas, Water & Multiutilities
IG Group Holdings	14,520,253	2.3	Financial Services
CRH	14,454,000	2.3	Construction & Materials
British American Tobacco	13,964,600	2.2	Tobacco
Antofagasta	12,826,600	2.1	Mining
National Grid	12,745,214	2.0	Gas, Water & Multiutilities
Tyman	12,380,049	2.0	Construction & Materials
National Express Group	12,059,000	1.9	Travel & Leisure
SThree	10,350,325	1.7	Support Services
TP ICAP	9,798,082	1.6	Financial Services
Morgan Advanced	9,675,718	1.6	Electronic & Electrical Equipment
Bovis Homes	9,517,500	1.5	Household Goods & Home Construction
Marks & Spencer Group	9,342,680	1.5	General Retailers
Informa	9,272,849	1.5	Media
Senior	8,854,018	1.4	Aerospace & Defence
GVC Holdings	8,709,120	1.4	Travel & Leisure
Inmarsat	8,522,970	1.4	Mobile Telecommunications
Hammerson	8,367,750	1.3	Real Estate Investment Trusts
Balfour Beatty	8,299,849	1.3	Construction & Materials
WPP	8,263,100	1.3	Media
Keller	7,770,000	1.2	Construction & Materials
Ashmore Group	7,741,061	1.2	Financial Services
Man Group	6,771,646	1.1	Financial Services

Name	Value (£)	% of listed holdings	Principal Activities
ITV	6,697,740	1.1	Media
Kin and Carta	5,432,625	0.9	Support Services
Sirius Real Estate	5,008,000	0.8	Real Estate Investment & Services
Hansteen Holdings	4,547,825	0.7	Real Estate Investment Trusts
Total Listed Equities	622,068,934	100.0	

UNLISTED EQUITY HOLDINGS as at 31 January 2019

Name	Value (£)	% of unlisted holdings	Principal Activities
First Debenture**	4,486	100	Financial Services
Total Unlisted Equities	4,486	100.0	

Written Call Options

As at 31 January 2019, the market value of the open option positions was £(10,490) (2018: £(51,450)), resulting in an underlying exposure to 0.6% of the portfolio (valued at strike price).

* BHP formerly BHP Billiton.

**The company is the lender of the company's Fixed Rate Interest Loan; more details are available in Note 9 on page 87 of the annual report.

All holdings are UK listed.

INCOME STATEMENT
for the year ended 31 January 2019

	Revenue £	Capital £	Total Return £
			Note C
(Losses) on investments at fair value through profit or loss	-	(56,214,287)	(56,214,287)
Gains on foreign currencies	-	414	414
Income	34,104,274	-	34,104,274
Investment management fee	(842,584)	(1,564,801)	(2,407,385)
Administration expenses	(834,705)	(1,586)	(836,291)
Profit (Loss) before finance costs and taxation	32,426,985	(57,780,260)	(25,353,275)
Finance costs: interest payable and similar charges	(2,331,235)	(4,249,587)	(6,580,822)
Profit (Loss) on ordinary activities before taxation	30,095,750	(62,029,847)	(31,934,097)
Taxation	-	-	-
Profit (Loss) after taxation attributable to ordinary shareholders	30,095,750	(62,029,847)	(31,934,097)
Earnings per ordinary share (basic and diluted) (Note B)	27.68p	(57.05p)	(29.37p)

BALANCE SHEET
at 31 January 2019

	£	£
Fixed assets		
Investments held at fair value through profit or loss		622,073,420
Current assets		
Others receivables	1,133,804	
Cash and cash equivalents	22,951,619	
	<u>24,085,423</u>	
Current liabilities		
Other payables	(2,016,323)	
Derivative financial instruments	(10,490)	
	<u>(2,026,813)</u>	
Net current assets		<u>22,058,610</u>
Total assets less current liabilities		644,132,030
Creditors: amounts falling due after more than one year		(110,205,297)
Total net assets		<u>533,926,733</u>
Capital and Reserves		
Called up share capital		27,182,116
Share premium account		33,717,572
Capital redemption reserve		292,853
Capital reserve		444,396,499
Revenue reserve		28,337,693
Equity shareholders' funds		<u>533,926,733</u>
Net asset value per ordinary share		491.1p

INCOME STATEMENT
for the year ended 31 January 2018

	Revenue £	Capital £	Total Return £
			Note C
Gains on investments held at fair value through profit or loss	-	54,592,570	54,592,570
Losses on foreign currencies	-	(17,161)	(17,161)
Income	32,633,321	-	32,633,321
Investment management fee	(844,297)	(1,567,980)	(2,412,277)
Administration expenses	(814,610)	(1,403)	(816,013)
Profit before finance costs and taxation	30,974,414	53,006,026	83,980,440
Finance costs: interest payable and similar charges	(3,242,407)	(5,939,250)	(9,181,657)
Profit on ordinary activities before taxation	27,732,007	47,066,776	74,798,783
Taxation	-	-	-
Profit after taxation attributable to ordinary shareholders	27,732,007	47,066,776	74,798,783
Earnings per ordinary share (basic and diluted) (Note B)	25.50p	43.29p	68.79p

BALANCE SHEET
at 31 January 2018

	£	£
Fixed assets		
Investments held at fair value through profit or loss		685,349,523
Current assets		
Others receivables	724,372	
Cash and cash equivalents	20,095,813	
	<u>20,820,185</u>	
Current liabilities		
Other payables	(2,197,081)	
Derivative financial instruments	(51,450)	
	<u>(2,248,531)</u>	
Net current assets		<u>18,571,654</u>
Total assets less current liabilities		703,921,177
Creditors: amounts falling due after more than one year		(110,443,317)
Total net assets		<u>593,477,860</u>
Capital and Reserves		
Called up share capital		27,182,116
Share premium account		33,717,572
Capital redemption reserve		292,853
Capital reserve		506,426,346
Revenue reserve		25,858,973
Equity shareholders' funds		<u>593,477,860</u>
Net asset value per ordinary share		545.8p

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 January

	Called up Share Capital £	Share Premium Account £	Capital Redemption Reserve £	Capital Reserve £	Revenue Reserve £	Total Shareholders Funds £
Net assets at 1 February 2018	27,182,116	33,717,572	292,853	506,426,346	25,858,973	593,477,860
Revenue profit	-	-	-	-	30,095,750	30,095,750
Dividends on ordinary shares	-	-	-	-	(27,617,030)	(27,617,030)
Capital loss	-	-	-	(62,029,847)	-	(62,029,847)
Net assets at 31 January 2019	27,182,116	33,717,572	292,853	444,396,499	28,337,693	533,926,733
Net assets at 1 February 2017	27,182,116	33,717,572	292,853	459,359,570	24,765,439	545,317,550
Revenue profit	-	-	-	-	27,732,007	27,732,007
Dividends on ordinary shares	-	-	-	-	(26,638,473)	(26,638,473)
Capital profit	-	-	-	47,066,776	-	47,066,776
Net assets at 31 January 2018	27,182,116	33,717,572	292,853	506,426,346	25,858,973	593,477,860

CASH FLOW STATEMENT

For the year ended 31 January

	2019 £	2018 £
Operating activities		
(Loss) Profit before finance costs and taxation*	(25,353,275)	83,980,440
Less: Gains (Losses) on investments at fair value	56,214,287	(54,592,570)
Less: (Gains) Losses on foreign currency	(414)	17,161
Purchase of fixed asset investments held at fair value through profit or loss	(181,992,796)	(155,820,497)
Sales of fixed asset investments held at fair value through profit or loss	189,013,652	167,788,923
(Increase) in other receivables	(409,432)	(220,240)
(Decrease) increase in other payables	(146,648)	53,361
Net cash inflow from operating activities	37,325,374	41,206,578
Financing activities		
Repayment of Stepped Rate Interest Loan	-	(34,000,000)
Proceeds from 2.96% Fixed Loan Notes 2052	-	34,655,594
Interest paid	(6,809,955)	(9,552,550)
Dividends paid on cumulative preference stock	(42,997)	(42,997)
Dividends paid on ordinary shares	(27,617,030)	(26,638,473)
Net cash outflow from financing activities	(34,469,982)	(35,578,426)
Increase in cash and cash equivalents	2,855,392	5,628,152
Cash and cash equivalents at the start of the year	20,095,813	14,484,822
Effect of foreign exchange rates	414	(17,161)
Cash and cash equivalents at the end of the year	22,951,619	20,095,813
Comprised of:		
Cash and cash equivalents	22,951,619	20,095,813

* Cash inflow from dividends was £33,116,522 (2018: £31,649,577) and cash inflow from interest was £596 (2018: £26).

Notes

Note A

The financial statements have been prepared under the historical cost convention, except for the revaluation of financial instruments held at fair value through profit or loss and in accordance with applicable United Kingdom law and UK Accounting Standards (UK GAAP), including Financial Reporting Standard 102 – the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (FRS 102) and in line with the Statement of Recommended Practice “Financial Statements of Investment Trust Companies and Venture Capital Trusts” issued by the Association of Investment Companies (AIC SORP) in November 2014 and updated in February 2018.

Note B

The earnings per ordinary share have been calculated using a weighted average number of shares in issue during the year of 108,728,464 (2018: 108,728,464 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 in the above statement derive from continuing operations. No operations were acquired or discontinued in the year.

The net profit for the year represents the company’s total comprehensive income.

Included in the cost of investments are transaction costs and stamp duty on purchases which amounted to £1,037,451 (2018: £780,986). Transaction costs on sales amounted to £87,200 (2018: £103,363).

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 102 Section 11: ‘Basic Financial Instruments’ and Section 12: ‘Other Financial Instruments’. The company manages and evaluates the performance of these investments on a fair value basis in accordance with its investment strategy, and information about the investments is provided on this basis to the board.

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. Gains or losses on investments are recognised in the capital column of the Income Statement. Purchases and sales of the financial assets are recognised on the trade date, being the date which the company commits to purchase or sell the assets.

Unlisted investments are valued by the Directors based upon the latest dealing prices, stockbrokers’ valuations, net asset values, earnings and other known accounting information in accordance with the principles set out by the International Private Equity and Venture Capital Valuation Guidelines issued in December 2018.

After initial recognition unquoted stocks are valued by the board on an annual basis.

Note E

	2019	2018
	£	£
Dividends paid on ordinary shares of 25p:		
Third interim dividend 6.2p paid 2 March 2018 (2017: 6.1p)	6,741,165	6,632,436
Final dividend 6.3p paid 30 May 2018 (2017: 6.1p)	6,849,893	6,632,436
First interim dividend 6.4p paid 22 August 2018 (2017: 6.1p)	6,958,622	6,632,436
Second interim dividend 6.5p paid 15 November 2018 (2017: 6.2p)	<u>7,067,350</u>	<u>6,741,165</u>
	27,617,030	26,638,473

Dividends payable at the year end are not recognised as a liability under FRS 102 Section 32 'Events After the End of the Reporting Period'. Details of these dividends are set out below.

	2019	2018
	£	£
Third interim dividend 6.5p paid 06 March 2019 (2018: 6.2p)	7,067,350	6,741,165
Final proposed dividend 6.6p payable 22 May 2019 (2018: 6.3p)	<u>7,176,079</u>	<u>6,849,893</u>
	14,243,429	13,591,058

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 changes in the share capital between the year end and the record date.

All dividends disclosed in the tables above have been paid or are payable from the revenue reserves.

Note F

The financial information for the year ended 31 January 2019 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 report has not yet been delivered to the Registrar of Companies.

The financial information for the year ended 31 January 2018 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 498(2) or (3) of the Companies Act 2006.

The full annual report will shortly be available to be viewed or downloaded from the company's website at www.merchantstrust.co.uk. Neither the contents of the company's website nor the contents of any website accessible from hyperlinks on the company's website (or any other website) is incorporated into, or forms part of this announcement.