25 September 2017

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THE MERCHANTS TRUST PLC
Half-Yearly Financial Report
For the six months ended 31 July 2017

Highlights

- Dividends declared for the first six months of 2017/18 are 12.3p per share, up 2.5% on last year.
- Ordinary shares yield 5.1% at 472.9p, compared with 3.7% on the FTSE All-Share Index at the close of business on 22 September 2017.
- NAV total return* +9.9%
- Share Price total return +6.8%

* Debt at market value

Interim management report

Half year results

I am pleased to report that the company has delivered a strong result in the first six months of the year, with a NAV total return of 9.9% ahead of the 7.1% return on our benchmark, the FTSE All-Share. This is explained fully in the investment performance commentary on page 6, with an attribution analysis set out below.

Net earnings and dividends

Earnings in the first six months of the current year, to 31 July 2017, were 15.05p per ordinary share (2016 – 14.38p). The improvement reflects dividend growth and the benefit of a weaker pound on dividends paid in foreign currencies.

In response to higher earnings, an improved outlook for income generation within the portfolio, and the opportunity to refinance legacy debt this financial year, the board has increased the second quarterly dividend to 6.2p per ordinary share, payable on 16 November 2017 to shareholders on the register at close of business on 6 October 2017. A Dividend Reinvestment Plan (DRIP) is available for this dividend and the relevant Election Date is 20 October 2017.

The total distribution declared for the first half of 2017/18 is 12.3p, an increase of 2.5% on the first two dividends paid last year (12.0p). As at 31 July 2017, the company's revenue reserve, after deducting the first and second quarterly dividends, represented 13.3p per share (2016 – 13.0p).

Net asset value

As at 31 July 2017, the NAV per ordinary share (with debt at market value) was 514.3p. On a capital basis, the NAV per ordinary share (with debt at market value) increased by 7.4%, compared with the benchmark, the FTSE All-Share Index, which increased by 4.9%.

The total return reflects both the change in net asset value per ordinary share and the ordinary dividends paid. For the six months to 31 July 2017, the NAV per ordinary share (with debt at market value) increased by 9.9%, whilst the FTSE All-Share Index increased by 7.1%.

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 6.1p per share was paid on 23 February 2017 to shareholders on the register on 27 January 2017. A final dividend of 6.1p per share was paid on 18 May 2017 to shareholders on the register on 21 April 2017. The total paid and declared for the year ended 31 January 2017 was 24.2p.

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 2018 of 6.1p per share was paid on 11 August 2017 to shareholders on the register on 14 July 2017.

Buybacks and share issuances

In the annual 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 5.5% since 16 May) through periods of market volatility which has not given rise to any issuances or buybacks.

Gearing

The company has long-term debt amounting to £76million plus £34million of short-term debt which is to be repaid in the current financial year. At the end of the period our gearing level was 19.0% compared to 20.4% at 31 January 2017. The gearing is in the form of structural long term debt, primarily consisting of two long term debentures, the first of which matures at the beginning of January 2018. The second debenture matures in 2023, and the company's secured bonds mature 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.

The first debenture is due to mature in January 2018 and the board is currently considering its options as to how to refinance this debt.

As illustrated in the table below, the portfolio gearing had a gross beneficial effect of 2.6%, or a net effect of 1.5% after the 0.9% cost of finance and the movement in the market value of debt of -0.2%, as bond yields fell to extremely low levels. Other costs, management fees and administration costs also reduced the total return by 0.6%.

Performance attribution analysis against FTSE All-Share Index	**Capital return %**	**Income return %**	**Total return %**
Return of Index	4.9	2.2	7.1
Relative return of portfolio	1.3	0.6	1.9
Return of portfolio	**6.2**	**2.8**	**9.0**
Impact of gearing on portfolio	1.8	0.8	2.6
Movement in fair value of debt	-0.2	-	-0.2
Finance costs	-0.6	-0.3	-0.9
Management fee	-0.1	-0.1	-0.2
Administration expenses	-	-0.1	-0.1
Other	0.3	-0.6	-0.3
Change in net asset value per ordinary share	**7.4**	**2.5**	**9.9**

Prospects

The Brexit negotiation process combined with high levels of consumer debt and rising inflation, have raised the risk profile for the UK economy. However, the outlook for growth in the rest of Europe and other major economies is more positive. UK listed companies offer exposure to a diverse range of industries and markets, with the majority of revenues and earnings coming from abroad. Whilst the UK stock market has made strong gains in recent years, valuations in many cases are still reasonable. Our fund managers are able to identify businesses with strong franchises and sound finances, trading on sensible valuations and paying attractive dividends.

By investing in a portfolio of such stocks, we aim to ensure that Merchants can pay a high yield and consistently rising dividends to shareholders, along with capital growth in the medium term. The board believes that the company's strategy is well suited to the current environment of very low bond yields and interest rates.

Simon Fraser
Chairman
199 Bishopsgate
London EC2M 3TY

25 September 2017

Principal Risks and Uncertainties

The principal risks and uncertainties facing the company are broadly unchanged from those described in the annual report for the year ended 31 January 2017 and are as follows:

Portfolio Risk

- Macro-economic shocks to the portfolio if the board and manager fail to predict changes to the investment environment.
- Significant market movements may adversely impact the investments held by the company increasing the risk of loss or challenges to the investment strategy.
- Reduction of dividends across the market affecting the portfolio yield and the ability to pay in line with dividend policy.

Business Risk

- An inappropriate investment strategy, e.g., asset allocation or the level of gearing may lead to underperformance against the company's benchmark index and peer group companies, resulting in the company's shares trading on a wider discount.
- Risk that there are insufficient liquid funds to pay back debentures on maturity.

Operational Risk

- Risk of inadequate procedures for the identification, evaluation and management of risks at outsourced providers including Allianz Global Investors (AllianzGI), and AllianzGI's outsourced providers, Bank of New York Mellon (BNYM) and Northern Trust (NT).

Other Risk

- Regulatory, external and catastrophic risk.
- Macro-economic and political risk.

The board's approach to mitigating these risks and uncertainties is set out in the annual report. In the board's view these will remain the principal risks and uncertainties for the six months to 31 January 2018. 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

25 September 2017

Investment Manager's Review

Economic and market background

The surprise event of the period was the general election called by Prime Minister Theresa May, in order to cement her position ahead of the UK's exit negotiations from the European Union. The election was unexpected, as Mrs May had previously ruled out holding a vote, but her view was swayed by strong opinion poll standings and seemingly weak opposition parties. This decision backfired painfully, as her campaign was poorly received and the Labour leader, Jeremy Corbyn, exceeded most expectations. In the end, the Conservatives lost their small majority in Parliament, although they remained the largest party. They had to make a deal with the Democratic Unionist Party (of Northern Ireland) to command a small majority.

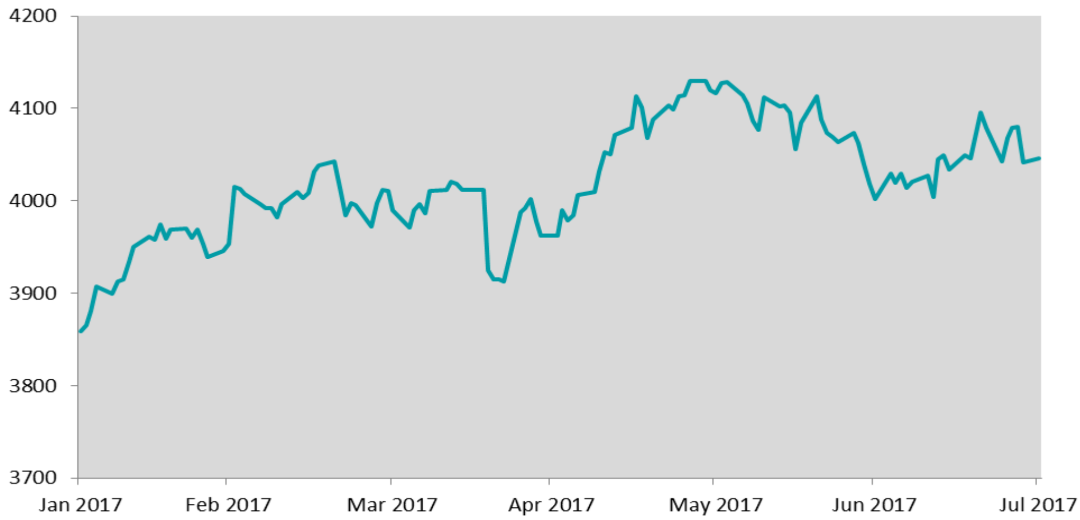
The government formally triggered Article 50 of the Lisbon treaty to leave the EU at the end of March. The subsequent negotiations seemed to lack coherence, although rising calls for a transition period and a more conciliatory attitude to the EU, may mean that the chances of a sharp "cliff edge" exit are reducing.

The UK economy grew at a slower rate in the first half of 2017 than the previous year, with an estimated 0.3% growth in the second quarter. Consumer confidence was affected by high debt levels and rising inflation. Investment spending was also subdued, partly due to the Brexit uncertainty.

In contrast, Europe recorded its strongest growth since the great financial crisis. The election of a centrist candidate, Emmanuel Macron, as President of France, and his convincing defeat of far right candidate Marine Le Pen, boosted confidence in France and across the Eurozone. However, in the USA, Donald Trump ran into trouble as he failed to gain support for many of his policy initiatives, and allegations of Russian involvement in his presidential campaign continued to dominate headlines. The US economy grew at a moderate pace, but it did not accelerate as some had forecast. Interest rates were raised twice in the USA, by 0.5% in total, as unemployment fell to its lowest rate in sixteen years. Despite this, the US dollar fell back a little, especially against the strong Euro.

The stock market shrugged off any political concerns and made steady gains with limited volatility. The FTSE All-Share Index total return was 7.1%, with medium sized companies performing even better. There was a wide range of sector returns, although the moves were not as extreme as last year. Personal goods was the best performing of the larger sectors, with a 30% return, as a rebuffed takeover bid boosted Unilever. Mobile telecommunications was also strong, along with the insurance sectors, with gains approaching 20%. In contrast a few sectors produced negative returns. The small oil equipment and services sector fell by over 20%. Tobacco returned -5%, as the US FDA announced a consultation into potentially reducing the level of nicotine in cigarettes. Electricity, food retail and oil & gas producers also produced small negative returns.

FTSE All-Share Index 31 January 2017 to 31 July 2017



Source: Thomson Reuters Datastream

Investment Performance

We show on page 2 Merchants' performance attribution for the period. The table breaks down the Net Asset Value (NAV) performance between the performance of the investment portfolio and other factors. Overall the NAV total return was 9.9% compared to the FTSE All-Share Index benchmark return of 7.1%. The total return on the investment portfolio was 9.0%. Gearing had a beneficial effect of +2.6% gross, or +1.5% after taking account of the -0.9% cost of finance and the -0.2% movement in the value of debt. Fees, expenses and other costs came to -0.6%.

The portfolio performed well in the first half, with a total return of 9.0%, which was 1.9% ahead of the 7.1% return on the FTSE All-Share Index benchmark. The biggest positive impacts at the sector level came from large holdings in the life insurance sector, which rallied, and limited exposure to the weak tobacco sector. We had sold the portfolio's residual position in tobacco before the FDA review was announced. Set against these positive factors, having no exposure to personal goods had a detrimental impact.

The table below shows the individual positive and negative stock contributors to performance. The biggest positive impact came from Standard Life as investors warmed to its proposed merger with Aberdeen Asset Management. The satellite communications company Inmarsat was also strong, rebounding from last year's weakness, on reassuring results and new contract wins. Limited or no exposure to the tobacco stocks British American Tobacco and Imperial Brands helped performance, as these shares pulled back. A number of the smaller companies within the portfolio performed well. Equiniti was buoyed by the sale at a high price of a competing share registration company, owned by Capita. Hostelworld, Tyman and Senior all produced reassuring trading results. Hansteen announced the sale of its large German and Dutch real estate portfolios at a high price, and a large return of capital. Legal & General was the final top ten positive stock contributor.

Table of Estimated Contribution to Investment Performance Relative to FTSE All-Share Index 31 January 2017 to 31 July 2017

Positive Contribution	%	Over/under weight	Negative Contribution	%	Over/under weight
Standard Life	0.7	+	Unilever	-0.5	-
Inmarsat	0.6	+	Centrica	-0.4	+
British American Tobacco	0.5	-	Vodafone	-0.3	-
Equiniti	0.4	+	Kier	-0.3	+
Imperial Brands	0.3	-	SSE	-0.2	+
Hostelworld	0.3	+	GlaxoSmithKline	-0.2	+
Senior	0.3	+	Sainsbury (J)	-0.2	+
Tyman	0.3	+	AstraZeneca	-0.2	-
Hansteen	0.3	+	Rolls Royce	-0.1	-
Legal & General	0.2	+	Royal Dutch Shell	-0.1	+

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

The largest negative contribution came from not owning Unilever, which received a takeover approach and responded with a significant restructuring programme. Utilities Centrica and SSE produced single digit negative returns, as political concerns about high energy bills weighed on sentiment. Kier and Sainsbury also produced modest negative returns, on concern over the outlook for the domestic economy. GlaxoSmithKline and Royal Dutch Shell had a small impact on performance, as they lagged the market return. Elsewhere, not owning Vodafone, AstraZeneca and Rolls Royce held back performance as these shares outperformed.

Portfolio Changes

Whilst the stock market showed limited overall volatility, there was considerable movement at the sector and individual company level. Our value based approach identified many interesting investment opportunities, as well as signalling stocks where it was appropriate to take profits or sell completely. We made five new investments into the portfolio and sold four holdings. Most of the new investments were recovery situations, where the share price was reflecting specific issues that were depressing profitability or growth, rather than the longer term potential value of the business. In recent years, investors have placed a premium on perceived reliability of earnings, which has meant that many recovery situations have been undervalued.

We bought shares in WPP, a world leading advertising and media business, with a strong position within areas of growth such as emerging markets and digital media. Concerns over slower industry growth this year and structural changes in the industry, brought the shares down to an unusually low level, which we believe undervalues the company’s potential. WPP has a history of adapting to the changing media environment and helping its clients deal with increasing complexity.

Within the capital goods sector we bought the aerospace and defence company, Meggitt, and a diverse engineering group, Morgan Advanced Materials. Both companies have strong positions in specialist markets, but each has the opportunity to significantly improve performance in the coming years and a clear strategy to achieve this. The other recovery situation is Bovis Homes, a housebuilder, which has suffered from an overly ambitious expansion programme, which led to poor execution, poor build quality and reduced profitability. Under new management, the company has reset expectations, reduced its output, and put in place a comprehensive turnaround strategy. The investment opportunity came from the shares trading at a significantly lower valuation than its peers, at just above the company’s asset value, with most of the assets being land and houses in development.

We also bought National Express. Best known for its UK coaches and bus operations, the company actually makes the majority of its profits overseas in the US school bus and the Spanish coach and bus markets in particular. The company is well positioned to continue to deliver solid growth and it was modestly priced.

Turning to complete disposals, in the life insurance sector we sold the remaining position in Aviva, which we believed to be fully valued after delivering significant synergies from its purchase of Friends Life a few years ago. We reinvested the proceeds into bigger holdings in our preferred life insurers, Standard Life and Legal & General. Our disciplined approach to valuation also led us to sell two other companies as their share prices reached our estimate of a full valuation. We sold the remaining small position in British American Tobacco, and we exited Hostelworld after exceptional performance.

In addition, we sold the investment in Mothercare, which was a recovery situation. The company had made good progress in turning around its troubled UK operation. However, the international franchise operation, which had been the key profit earner, has suffered from a prolonged period of weak trading. Although there remains considerable value in the overseas business, the recovery there will take some time and is not without risks.

Apart from new holdings and total disposals, we made a number of changes to existing positions. The biggest addition was to the resources company BHP Billiton. This business and many large miners, are starting to generate substantial cash flows and rising dividends as the industry curtails its capital spending. We believe that the stock market is undervaluing the company’s cash flows, and we particularly like the high exposure to copper mining and petroleum extraction, where demand and supply trends look favourable. On the other hand, we took profits in several holdings after good performance had reduced the potential upside, including HSBC, UBM, FirstGroup, Tate & Lyle and CRH.

Derivatives Strategy

Merchants operates a covered call strategy on a limited proportion of the portfolio to generate additional income. In "writing" or selling an option, we give 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 Merchants receives an option premium which is taken to revenue. We get 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 Merchants 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 £359,000 of option premium accrued. The strategy was broadly breakeven overall after taking account of the opportunity costs incurred from option exercises. Option activity was at a slightly lower level than last year due to very low levels of volatility in the market, providing fewer attractive situations.

Outlook

The growth rate of the UK economy has slowed this year. There remain further risks to the economy from high levels of consumer debt and the impact of inflation on real earnings, as well as uncertainty in the corporate sector caused by Brexit. However, the Bank of England continues to stimulate activity with extremely low interest rates, a weak pound is helping exporters and employment levels remain high.

Overseas, the prospects for growth in the Eurozone look better than for some time, the US economy looks steady, and China continues to help world growth and spur the demand for many commodities.

The UK stock market is not purely exposed to the UK economy. The majority of sales and profits in UK listed stocks comes from overseas operations, spread across many industries and different geographic markets.

Although stock markets have been trading near to all time high levels, there remain plenty of opportunities to buy sound businesses trading on reasonable valuations, with attractive dividend yields. We are finding these opportunities both within domestic companies and amongst the more internationally diversified. Most domestic stocks are pricing in a difficult environment. Although an element of caution is understandable, there are several companies in sectors like retail, leisure and financials, that seem undervalued under most realistic longer term scenarios.

Much of the portfolio is invested in recovery situations, as described above. These span a number of industries. Internationally spread businesses include the diversified oil companies, certain mining, media, aerospace & defence and capital goods companies. Domestically focused recovery stocks span the gambling, pubs, house building and retail sectors.

The portfolio has very limited exposure to the consumer staples sectors like tobacco, household goods and beverages, where valuations are extended and future shareholder returns are likely to be modest at best. Shareholder activism in this area has encouraged many of these businesses to cut investment and marketing spending to boost profit margins, and to take on higher levels of debt, partly to finance acquisitions. This process has boosted earnings per share but potentially at the expense of longer term growth prospects. Furthermore, the extra debt could leave companies more vulnerable to any cyclical downturn or structural changes in their industries.

The Merchants Trust portfolio comprises investments in businesses which, we believe, have strong franchises, valuable assets and are priced at a level where they can, in aggregate, deliver a high level of income and good total returns for shareholders in the medium term.

Simon Gergel

Allianz Global Investors

THE MERCHANTS TRUST PLC

Twenty Largest Equity Holdings as at 31 July 2017

	Market Value £'000s	Total Assets %*	Principal Activity
Royal Dutch Shell 'B' shares	51,169	7.74	Oil & Gas Producers
GlaxoSmithKline	46,513	7.04	Pharmaceuticals & Biotechnology
HSBC	37,711	5.71	Banks
BP	35,864	5.43	Oil & Gas Producers
Standard Life	25,835	3.91	Life Insurance
Lloyds Banking Group	24,917	3.77	Banks
BHP Billiton	23,449	3.55	Mining
UBM	22,834	3.46	Media
Prudential	20,420	3.09	Life Insurance
Legal & General	20,123	3.05	Life Insurance
SSE	17,694	2.68	Electricity
Hansteen	16,396	2.48	Real Estate Investment Trusts
Tate & Lyle	15,545	2.35	Food Producers
Greene King	14,638	2.21	Travel & Leisure
Kier Group	14,330	2.17	Constructions & Materials
Sthree	14,263	2.16	Support Services
Pennon	13,939	2.11	Gas, Water & Multiutilities
Centrica	12,956	1.96	Gas, Water & Multiutilities
Ladbrokes	12,650	1.91	Travel & Leisure
BAE Systems	12,571	1.90	Aerospace & Defence
	453,817	68.68	

* Total assets include current liabilities

Portfolio Analysis as at 31 July 2017

Sector	Market Value £'000s	Total Assets %**
Financials	195,857	29.64
Industrials	106,944	16.19
Consumer Services	105,842	16.02
Oil & Gas	87,033	13.17
Utilities	56,711	8.59
Health Care	46,513	7.04
Consumer Goods	35,103	5.31
Basic Materials	34,028	5.15
Telecommunications	12,038	1.82
Net Current Liabilities	(19,390)	(2.93)
	660,679	100.00

** Total assets include current liabilities

As at 31 July 2017 call options were written over 1.52% of the portfolio (valued at strike price). During the period, income generated from call options amounted to £359,482.

THE MERCHANTS TRUST PLC

Summary of Unaudited Results

INCOME STATEMENT
For the six months ended 31 July 2017

	Revenue £'000s	Capital £'000s	2017 Total Return £'000s
			(Note 1)
Gains on investments at fair value	-	40,059	40,059
Gains on foreign currencies	-	5	5
Income from investments	18,342	-	18,342
Other income	432	-	432
Investment management fee	(418)	(777)	(1,195)
Administrative expenses	(387)	(1)	(388)
Profit before finance costs and taxation	17,969	39,286	57,255
Finance costs: interest payable and similar expenses	(1,601)	(2,933)	(4,534)
Profit on ordinary activities before taxation	16,368	36,353	52,721
Taxation	-	-	-
Profit attributable to ordinary shareholders	16,368	36,353	52,721
Earnings per ordinary share (Note 4) (basic and diluted)	15.05p	33.44p	48.49p

BALANCE SHEET
As at 31 July 2017

	2017 £'000s
Fixed Assets	
Investments at fair value through profit or loss	680,069
Net current liabilities	(19,390)
Total assets less current liabilities	660,679
Creditors - amounts falling due after one year	(75,904)
Total net assets	584,775
Called up share capital	27,182
Share premium account	33,718
Capital redemption reserve	293
Capital reserve	495,713
Revenue reserve	27,869
Equity shareholders' funds	584,775
Net asset value per ordinary share	537.8p

The net asset value is based on 108,728,464 ordinary shares in issue at 31 July 2017.

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)
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)
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)
Profit on ordinary activities before taxation	15,631	15,728	31,359
Taxation	-	-	-
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

BALANCE SHEET As at 31 January 2017	**£'000s**
Fixed Assets	
Investments at fair value through profit or loss	643,433
Net current liabilities	(22,093)
Total assets less current liabilities	621,340
Creditors - amounts falling due after one year	(76,022)
Total net assets	545,318
Called up share capital	27,182
Share premium account	33,718
Capital redemption reserve	293
Capital reserve	459,360
Revenue reserve	24,765
Equity shareholders' funds	545,318
Net asset value per ordinary share	501.5p

The net asset value is based on 108,728,464 ordinary shares in issue at 31 January 2017.

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 2017						
Net assets at 1 February 2017	27,182	33,718	293	459,360	24,765	545,318
Revenue profit	-	-	-	-	16,368	16,368
Dividends on ordinary shares (Note 3)	-	-	-	-	(13,264)	(13,264)
Capital profit	-	-	-	36,353	-	36,353
Net assets at 31 July 2017	27,182	33,718	293	495,713	27,869	584,775
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

THE MERCHANTS TRUST PLC

CASH FLOW STATEMENT

for the six months ended 31 July 2017 and comparative periods

	Six Months to 31 July 2017 £'000s	Six Months to 31 July 2016 £'000s
Operating activities		
Profit before finance costs and taxation	57,255	36,074
Less: gains on investments at fair value	(40,059)	(19,475)
Less: gains on foreign currency	(5)	-
Purchase of fixed asset investments held at fair value through profit or loss	(91,540)	(51,449)
Sales of fixed asset investments held at fair value through profit or loss	93,263	65,865
Increase in receivables	(1,682)	(401)
Increase (decrease) in payables	1,228	(118)
Net cash inflow from operating activities	**18,460**	**30,496**
Financing activities		
Interest paid	(4,792)	(4,791)
Dividends paid on cumulative preference stock	(21)	(21)
Dividends paid on ordinary shares	(13,264)	(13,048)
Cash outflow from financing activities	**(18,077)**	**(17,860)**
Increase in cash and cash equivalents	**383**	**12,636**
Cash and cash equivalents at the start of the period	14,485	6,458
Effect of foreign exchange rates	5	-
Cash and cash equivalents at the end of the period	14,873	19,094
Composed of:		
Cash at bank	14,873	19,094

THE MERCHANTS TRUST PLC

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 2017 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 (AllianzGI), 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 2017 £'000s	Six months to 31 July 2016 £'000s
Third quarterly dividend 6.10p paid 23 February 2017 (2016 - 6.00p)	6,632	6,524
Final dividend 6.10p paid 18 May 2017 (2016 - 6.00p)	6,632	6,524
	13,264	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.

	Six months to 31 July 2017 £'000s	Six months to 31 July 2016 £'000s
First quarterly dividend 6.10p payable 16 August 2017 (2016 - 6.00p)	6,632	6,524
Second quarterly 6.20p payable 16 November 2017 (2016 - 6.00p)	6,741	6,524
	13,373	13,048

Note 4 – Earnings per Ordinary Share

The earnings 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 2016 - 108,728,464 shares).

Note 5 - Fair Value Hierarchy

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: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e., developed using market data) for the asset or liability, either directly or indirectly.
Level 3: Inputs are unobservable (i.e., for which market data is unavailable) for the asset or liability.

With the exception of those financial liabilities measured at amortised cost, all other financial assets and financial liabilities are either carried at their fair value or the balance sheet amount is a reasonable approximation of their fair value.

As at 31 July 2017, the financial assets at fair value through profit and loss of £679,944,000 (31 July 2016: £608,234,000; 31 January 2017: £643,348,000) 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 2017				
Equity investments	680,041	-	-	680,041
Financial instruments	-	-	28	28
Derivative financial instruments - written call options	(125)	-	-	(125)
	679,916	-	28	679,944
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 January 2017				
Equity investments	643,405	-	-	643,405
Financial instruments	-	-	28	28
Derivative financial instruments - written call options	(85)	-	-	(85)
	643,320	-	28	643,348

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 2017, 31 July 2016 and 31 January 2017.

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