15 September 2011

THE MERCHANTS TRUST PLC

Half-yearly financial report

For the six months ended 31 July 2011

Highlights

- Net dividends declared in the first six months of 2011/12 are 11.4p per share, maintaining the same level of payment as the same period last year.

- Ordinary shares yield 6.4% at 358.5p, compared with 3.7% on the FTSE 100 Index at the close of business on 14 September 2011.

- The NAV Total Return per share was 1.03% at 31 July 2011, compared to the FTSE 100 Index Total Return of 1.08% at the same date.

- The Net Asset Value per share fell by 1.6% compared to a fall of 0.8% in the FTSE 100 Index and a small rise of 0.5% 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 2011 to shareholders on the register at close of business on 7 October 2011. The total distribution declared for the first half of 2011/12 is 11.4p net, the same amount compared to the comparative 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 2011, the Trust's revenue reserve, after deducting the first and second interim dividends, represented 12.6p per share (2010 - 14.9p).

Net Revenue
Earnings in the first six months of the current year, to 31 July 2011, were 11.59p per Ordinary Share (2010 – 12.33p).

Net asset value
The net asset value per ordinary share was 420.1p at 31 July 2011. This represents a decrease of 1.6% when compared with the equivalent figure at 31 January 2011 - the end of the last financial year. Over the same period the FTSE 100 Index fell by 0.8%, whilst the FTSE 350 Higher Yield Index rose by 0.5% (Capital Return).

Material events and transactions
In the six month period ended 31 July 2011 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 5.7p per share was paid on 18 February 2011 to shareholders on the register on 21 January 2011. A final dividend of 5.7p per share was paid on 13 May 2011 to shareholders on the register on 15 April 2011. The total paid and declared for the year ended 31 January 2011 was 22.8p.

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

Since the period end, the first quarterly dividend for the year ending 31 January 2012 of 5.7p per share was paid on 17 August 2011 to shareholders on the register on 15 July 2011.

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 2011 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.

Gearing
The Trust continues to have long-term debt amounting to £111 million. This is all deployed in the market for investment purposes. At the end of the period our gearing level was 25.6% compared to 25.2% at 31 January 2011.

Board
We support the intention of the Davies Review 'Women on Boards' to encourage diversity on the boards of companies. There are four directors on the board and as each has served no more than four years we have no current plans to recruit new directors. In our latest recruitment exercise, as we stated in the annual report, we sought to identify a wide spectrum of candidates and to take gender into account. Our aim is to continue to include women in the shortlist next time we search for a new director.

Prospects
High levels of government and consumer debt in the Western World and a fragile, perhaps stuttering economic recovery provide a difficult background for equities. However market valuations are modest and many companies have significantly improved their financial position since the global financial crisis. The portfolio is heavily weighted towards globally diversified, well financed companies which generate strong and rising cash flows and dividends. This reflects the Trust's objective and commitment to deliver long-term growth in capital and income.

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 2011 and the above responsibility statement was signed on its behalf by the Chairman.

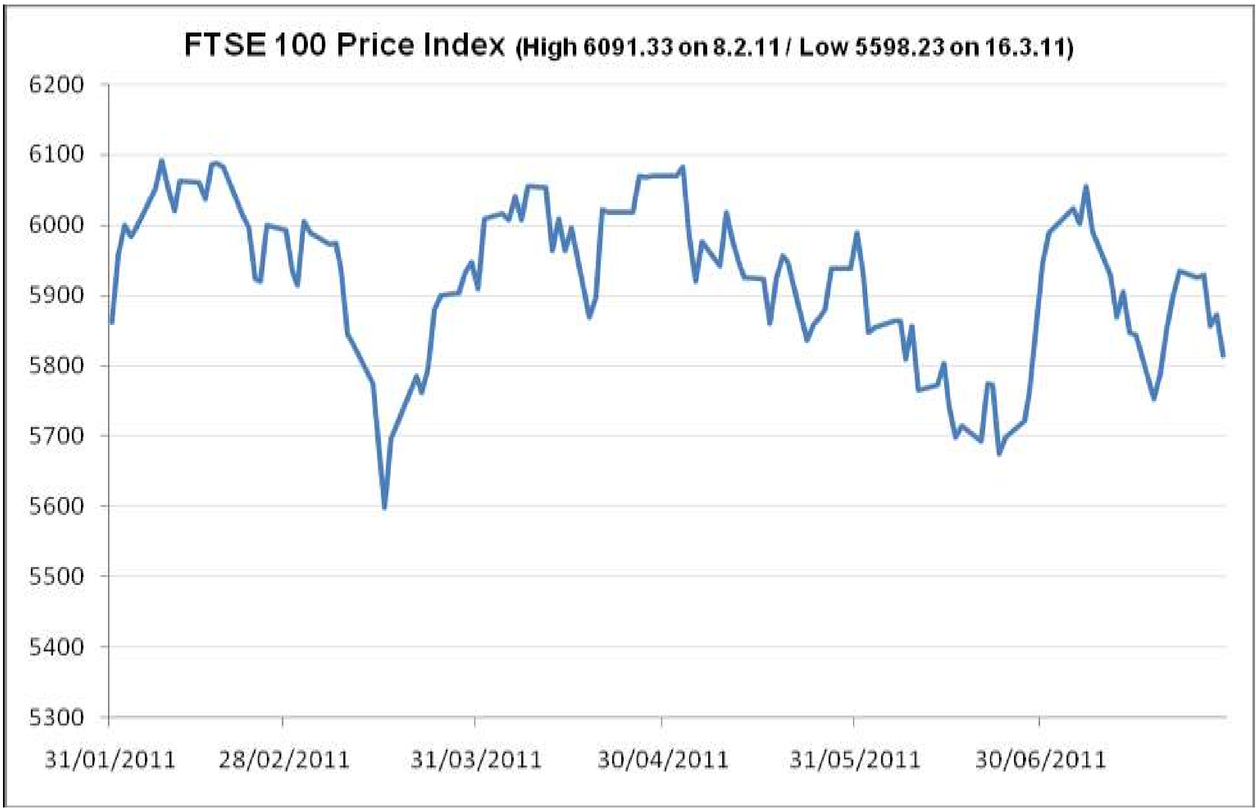
Simon Fraser
Chairman

155 Bishopsgate
London EC2M 3AD

Fund Manager’s Report

Economic and Market Background

In last year’s annual report we described the improving outlook for corporate profitability supporting share prices on the one hand and the pressure exerted by unprecedented debt levels and severe global imbalances on the other. In the first half of this year, these forces waged a tug of war on the stock market, keeping the FTSE 100 Index within a ten percent trading range between 5600 and 6100. After companies cut costs aggressively during the recession, a continued recovery in global activity in this period led to strong profits and cashflow growth, bringing valuations down to more attractive levels and supporting share prices. However an opposing downwards pull was exerted by a succession of economic and political issues which kept the optimists in check. These issues included the crisis in peripheral European sovereign debt markets, Chinese policy tightening to control rising inflation and political wrangling over how to deal with the US budget deficit.



(Source: Thomson Datastream)

Economic news flow during the early part of the year generally pointed to an economic recovery gaining momentum in the Western World, with the UK lagging the USA, and Europe divided between a strong core and a weak periphery. The tragic earthquake and tsunami in Japan caused a disruption to growth but was not expected to have a significant longer term economic impact. However in the latter weeks, economic indicators deteriorated with a particularly sharp revision of first quarter US GDP growth to only 0.4% (from 1.9%) at the end of July. Emerging markets generally witnessed stronger growth but also inflationary pressures, rising interest rates and appreciating currencies.

The overall stock market move was modest, with the FTSE 100 Index producing a return of 1.1% including income. Within a fairly nervous market, many of the less cyclical sectors performed well with tobacco, pharmaceuticals, electricity and fixed line telecoms posting strong double digit returns. However that was not the only theme and certain engineering, real estate and technology companies also performed well. The clear laggards were the general financial and banks sectors with the banking industry buffeted by a succession of regulatory issues and concerns over Eurozone peripheral debt markets. Medium sized companies outperformed modestly with the FTSE 250 Index producing a total return around 2%, whilst higher yielding companies, as represented by the FSTE 350 Higher Yield Index returned 3.1%.

Performance

The underlying performance of the Trust’s UK equity portfolio was ahead of the FTSE 100 Index although not as strong as the FTSE 350 Higher Yield Index, reflecting a bias towards relatively resilient and high yielding companies. Many of the largest active positions in the Trust generated significant performance contributions with Glaxosmithkline, Scottish & Southern Energy, Resolution, National Grid, Unilever and BT all producing double digit returns. In addition having a low exposure to the domestic banks was a material positive driver as these stocks fell sharply and held back the index return.

However the flipside to the general market move towards “defensive” shares was that some of the more cyclical companies in a variety of sectors fell in value. A nervous stock market severely punished any company having a profit warning or disappointing expectations and the portfolio was not immune to this factor. Economically sensitive stocks that saw trading deteriorate and therefore underperformed included Daily Mail & General Trust, Premier Farnell and Hays. Man Group and BAE Systems also found the environment difficult. Elsewhere Inmarsat disappointed, primarily due to an ongoing product transition, United Business Media revealed increased investment costs and Britvic suffered from higher raw material prices.

Contribution to Investment Performance relative to FTSE 100 Index

Positive Contributions	**%**	**Negative Contributions**	**%**
GlaxoSmithKline	0.6%	Daily Mail & General Trust	-0.5%
Scottish & Southern Energy	0.5%	Premier Farnell	-0.4%
Lloyds	0.4%	United Business Media	-0.3%
Barclays	0.3%	Hays	-0.3%
Resolution	0.2%	Inmarsat	-0.3%
National Grid	0.2%	BAE Systems	-0.3%
Unilever	0.2%	Man Group	-0.3%
Anglo American	0.2%	Britvic	-0.2%
BT	0.2%	SABMiller	-0.2%
Interserve	0.1%	Shire	-0.2%

Portfolio Changes

With the stock market range-bound and with economic newsflow mixed, at least until the last few weeks, most of the activity in the portfolio was driven by stock specific considerations. We added three new companies to the portfolio and sold five completely.

Within the real estate sector, prime properties with long leases and strong tenants have seen a significant recovery in value since the global financial crisis as investors have looked for high yielding assets with an element of inflation protection. Our two real estate holdings both benefitted from this trend and we saw less valuation opportunity going forwards. We therefore sold British Land completely and reduced Hammerson materially. However we introduced a new investment in London & Stamford, a high yielding company established by industry veterans to take advantage of the property cycle. As well as having an interesting portfolio spanning logistics warehouses, London rental apartments, City offices and a stake in the Meadowhall shopping centre, the company still has considerable resources to invest opportunistically and no legacy assets.

Among cyclical companies we sold out of advertising agency WPP, almost doubling the Trust’s investment over two years as their profits have recovered from the recession. We also sold Melrose, the industrial turnaround specialist which has realised significant value from the restructuring of FKI. We could see limited further upside when they announced an approach for Charter International, partly due to our concerns about the economic risks to Melrose’s existing businesses. Elsewhere Lloyds insurer, Brit Insurance was taken over as detailed last year and thus left the portfolio.

We were active in the retail sector. Home Retail Group, the owner of Argos and Homebase, has been a disappointing investment. Despite a value proposition, a low cost base, a robust balance sheet and a strong internet presence it has been unable to escape the competitive pressures from supermarkets and other online retailers which have eroded its profit margins. Having lost confidence in their competitive position we took advantage of a rally in the shares at the start of this calendar year to sell the holding in February. Instead, we introduced a position in Mothercare, the eponymous retailer which also owns the Early Learning Centre. Like many retailers their UK profits have been under considerable pressure. However the business has a valuable overseas franchise operation with over twice as many stores as in the UK. Most of the stores are in emerging markets where birth rates are higher, competition is weaker and their brands are stronger. Key markets include Saudi Arabia, UAE, Russia and India. The overseas store base is growing at 15-20% per annum and as a franchise operation is very cash generative.

The final new holding was Carnival, the world’s largest cruise company with a near 50% share of the market. Since its merger with P&O Princess cruises in 2003, the industry has had to cope with overcapacity, a major consumer recession and sharply rising fuel costs. It takes several years to build a new cruise ship so earlier investment decisions have taken a long time to work through the system.

However looking forward we see considerably less spare capacity in the medium term which should boost returns. Cruising is effectively an oligopoly and remains a growing leisure activity where European markets, in particular, should develop further. Whilst the oil price is hard to predict, any decline from recent high levels could give a further boost to the business by reducing costs and potentially relieving the pressure on consumer disposable incomes. The valuation is modest compared to the company's history and the dividend is being increased significantly from a low base as cashflow improves with fewer new ships under construction.

In the insurance sector we significantly reduced the Aviva holding after the sharp recovery since the global financial crisis had reduced the potential upside, and we added to Lloyds insurer Hiscox which carries less exposure to financial asset prices. Within utilities we sold the remaining position in Centrica early in the period, seeing greater value in SSE and National Grid. Centrica subsequently underperformed these other utilities which provided the opportunity to partially reverse this stance at better prices, including switching part of the SSE position back into Centrica in June.

Where we continued to have a high level of conviction we were happy to add to share holdings as prices came back and thus offered better value. Such purchases included defence companies BAE Systems and Cobham, media companies UBM and Daily Mail & General Trust and consumer companies Tesco and Britvic. Conversely we took some profits on holdings that had performed well and offered less future potential. Such partial sales included tobacco companies BAT and Imperial Tobacco, construction and support services firm Interserve and industrial distributor Premier Farnell.

Derivatives Strategy
We continued to write a limited number of covered call options on certain portfolio holdings to generate additional income. This strategy is controlled within strict limits and we only write options at prices where we would be happy to sell the underlying stock. In the period, an additional £790,000 in income was generated and the option strategy overall made a positive contribution to the total return after allowing for the opportunity costs of any option exercises.

Outlook
After a deep recession there is usually a relatively robust recovery. However, after an initial inventory re-stocking phase, the recovery in US economic growth from the most recent recession has been one of the weakest since the second world war*. This is despite a policy of almost zero interest rates, two rounds of quantitative easing and significant fiscal stimulus. It seems likely that this is a consequence of the debt overhang at the consumer and government level, the moribund housing market and high petrol and energy prices. Recent evidence of a slowing in the pace of the recovery, including deteriorating consumer sentiment, weak survey data, limited employment growth and the significant downward adjustment to first quarter growth statistics has made us more pessimistic on the outlook. The USA needs a period of austerity to address its budget deficit and accumulated debts. However these growth statistics imply that it will be difficult to avoid another recession or at least a period of economic stagnation as policy makers have few tools left.

The environment outside the US does not inspire confidence either. The Eurozone goes from crisis to crisis as politicians have so far failed to deal decisively with the problems of the peripheral sovereign debt markets. Whilst there is probably enough money within Europe to sort out the problems, there is lack of political leadership and public support to take the necessary action. The European Central Bank may have been exacerbating the situation by, once again, raising interest rates at a time when growth is slowing. Economic growth has been lacklustre in the UK too, although having our own currency gives us an extra tool to deal with the situation.

Emerging markets, in particular China, have provided a hugely important source of growth for the world economy since the global financial crisis, but even here there are issues. Rising food and energy prices and increasing inflation have led many developing countries to tighten monetary policy significantly. Higher interest rates and strong currencies are now leading to slower growth rates.

Overall therefore it is difficult to be optimistic about the macro economic outlook. There is the possibility that slowing growth will lead to a fall in commodity prices, in particular oil, which could take some of the pressure off consumer budgets and sew the seeds of the next recovery but commodity prices are always hard to predict and could be influenced by any further quantitative easing policy.

Despite the difficult economic background, the corporate sector is surprisingly healthy. Many companies have cut costs aggressively since the recession and have rebuilt their balance sheets as profits have recovered. Labour costs have been under tight control and profit margins are high. In addition multinational companies, which make up a large part of the UK market, have been able to exploit growth opportunities in developing countries in contrast to the relatively tough home environment. Government austerity however is likely to lead to a tougher environment for many businesses with cuts to spending and increases in general and specific taxation.

Aggregate stock market valuations look attractive on a long term basis, especially compared to government bonds and discount many risks. We would caution that certain cyclical sectors, including mining and industrials, are making high or record profit margins which could be vulnerable in the event of a significant economic slowdown. However we can find many other situations where risks are lower and thus low valuations offer a genuine support.

Our investment policy in this environment continues to be cautious. We have a bias towards large, lowly valued, multinational businesses with strong balance sheets operating in relatively defensive or less cyclical industries such as pharmaceuticals, telecoms, utilities or household products. However there remain opportunities in other sectors. We continue to favour businesses with structural growth potential, for example those with emerging market exposure, as we think growth should be valued at a premium in this environment.

We also like companies exposed to low-ticket corporate discretionary spending, such as exhibitions and data services in the media sector as the corporate sector is generally in a better financial position to grow its spending than either the government or consumer sector. Elsewhere, despite the pressures on government budgets, we think that certain defence companies are attractive with exceptionally low valuations, long term order books and the potential to win export orders to supplement their UK and US activities.

In all cases we are paying close attention to company debt levels, cash flows and trading, regulatory and political risks. Valuation, including dividend yield remains a key investment criteria.

Since the end of July the stock market has pulled back significantly making overall valuations look even cheaper with the prospective dividend around 4% at the time of writing, well ahead of the 2.3% yield on 10 year UK government bonds. We see the recent market decline as a reflection of increasing concern over the growth outlook and we are not therefore minded to take on more cyclical and financial risk within the portfolio. Indeed since the end of July, we have further reduced the portfolio’s exposure to cyclical companies such as mining, industrials and financials and added more to defensive sectors like food retailers and utilities.

Dividends
As we described at the full year stage, The Merchants Trust has a long record of consecutive annual dividend increases and the portfolio is managed with a view to generating a high level of income. Dividend growth across the stock market has been strong, helped by BP resuming payments in February, and consensus expectations are for further aggregate dividend growth this year and next. Despite the economic headwinds, we are reasonably optimistic about the dividend prospects for the portfolio companies as their financial situations are generally robust, payout ratios are not excessive and many have limited economic sensitivity.

*source Deutsche Bank research

Simon Gergel
RCM (UK) Limited

THE MERCHANTS TRUST PLC

Twenty Largest Equity Holdings as at 31 July 2011

	Valuation £'000s	% of Total Assets*	Sector
Royal Dutch Shell 'B' Shares	47,877	8.79	Oil & Gas Producers
GlaxoSmithKline	42,816	7.86	Pharmaceuticals & Biotechnology
BP	36,360	6.68	Oil & Gas Producers
HSBC	35,561	6.53	Banks
Vodafone	27,293	5.01	Mobile Telecommunications
Unilever	21,623	3.97	Food Producers
BAE Systems	20,255	3.72	Aerospace & Defence
Scottish & Southern Energy	16,730	3.07	Electricity
British American Tobacco	15,916	2.92	Tobacco
National Grid	15,307	2.81	Gas, Water & Multiutilities
AstraZeneca	14,767	2.71	Pharmaceuticals & Biotechnology
BHP Billiton	14,706	2.70	Mining
Resolution	14,131	2.59	Life Insurance
Reed Elsevier	13,566	2.49	Media
BT	12,582	2.31	Fixed Line Telecommunications
Reckitt Benckiser	11,923	2.19	Household Goods & Home Construction
Compass	10,916	2.00	Travel & Leisure
UBM	10,154	1.86	Media
Tesco	9,965	1.83	Food & Drug Retailers
Daily Mail & General Trust "A" Shares	9,204	1.69	Media
	401,652	73.73	

* Total Assets include current liabilities

Portfolio Analysis as at 31 July 2011

Sector	Valuation	% of Total Assets**
Financials	101,744	18.68
Oil & Gas	84,237	15.46
Consumer Services	65,909	12.10
Consumer Goods	64,197	11.78
Industrials	62,674	11.51
Health Care	57,583	10.57
Telecommunications	48,786	8.96
Utilities	37,247	6.84
Basic Materials	14,706	2.70
Net Current Assets	7,632	1.40
	544,715	100.00

** Total Assets include current liabilities

As at 31 July 2011 call options are written over 6.47% of the portfolio, generating income of £790,008.

THE MERCHANTS TRUST PLC

Summary of Unaudited Results

INCOME STATEMENT
For the six months ended 31 July 2011

	Revenue £'000s	Capital £'000s	2011 Total Return £'000s
			(Note 1)
Net losses on investments at fair value	-	(3,740)	(3,740)
Income from investments	13,457	-	13,457
Other income	790	-	790
Investment management fee	(343)	(636)	(979)
Administrative expenses	(277)	(1)	(278)
Net return before finance costs and taxation	13,627	(4,377)	9,250
Finance costs: interest payable and similar charges	(1,665)	(3,053)	(4,718)
Net return on ordinary activities before taxation	11,962	(7,430)	4,532
Taxation	-	-	-
Net return attributable to Ordinary Shareholders	11,962	(7,430)	4,532
Net return per Ordinary Share (Note 4)			
(basic and diluted)	11.59p	(7.20)p	4.39p

BALANCE SHEET As at 31 July 2011	2011 £'000s
Investments at fair value through profit or loss	537,083
Net current assets	7,632
Total Assets Less Current Liabilities	544,715
Creditors - amounts falling due after one year	(111,103)
Total Net Assets	433,612
Called up Share Capital	25,803
Share Premium Account	8,523
Capital Redemption Reserve	293
Capital Reserve	374,255
Revenue Reserve	24,738
Shareholders' Funds	433,612
Net Asset Value per Ordinary Share	420.1p

The Net Asset Value is based on 103,213,464 Ordinary Shares in issue at 31 July 2011.

Summary of Unaudited Results

INCOME STATEMENT
For the six months ended 31 July 2010

	Revenue £'000s	Capital £'000s	2010 Total Return £'000s
			(Note1)
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)
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 4)			
(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.

INCOME STATEMENT
for the year ended 31 January 2011

	Revenue £'000s	Capital £'000s	2011 Total Return £'000s
			(Note 1)
Net gains on investments at fair value	-	63,626	63,626
Income from investments	23,516	-	23,516
Other income	2,225	-	2,225
Investment management fee	(635)	(1,179)	(1,814)
Administrative expenses	(715)	(3)	(718)
Net return before finance costs and taxation	24,391	62,444	86,835
Finance costs: interest payable and similar charges	(2,491)	(4,816)	(7,307)
Net return on ordinary activities before taxation	21,900	57,628	79,528
Taxation	-	-	-
Net return attributable to Ordinary Shareholders	21,900	57,628	79,528
Net return per Ordinary Share (Note 4) (basic and diluted)	21.22p	55.83p	77.05p

BALANCE SHEET
As at 31 January 2011

	2011 £'000s
Investments at fair value through profit or loss	543,239
Net current assets	8,792
Total Assets Less Current Liabilities	552,031
Creditors - amounts falling due after one year	(111,185)
Total Net Assets	440,846
Called up Share Capital	25,803
Share Premium Account	8,523
Capital Redemption Reserve	293
Capital Reserve	381,685
Revenue Reserve	24,542
Shareholders' Funds	440,846
Net Asset Value per Ordinary Share	427.1p

The Net Asset Value is based on 103,213,464 Ordinary Shares in issue at 31 January 2011.

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 2011						
Net Assets at 31 January 2011	25,803	8,523	293	381,685	24,542	440,846
Revenue Return	-	-	-	-	11,962	11,962
Dividends on Ordinary Shares	-	-	-	-	(11,766)	(11,766)
Capital Return	-	-	-	(7,430)	-	(7,430)
Net Assets at 31 July 2011	25,803	8,523	293	374,255	24,738	433,612
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
Year ended 31 January 2011						
Net Assets at 31 January 2010	25,803	8,523	293	324,057	26,071	384,747
Revenue Return	-	-	-	-	21,900	21,900
Dividends on Ordinary Shares	-	-	-	-	(23,429)	(23,429)
Capital Return	-	-	-	57,628	-	57,628
Net Assets at 31 January 2011	25,803	8,523	293	381,685	24,542	440,846

CASH FLOW STATEMENT

for the six months ended 31 July 2011 and comparative periods

	Six Months to 31 July 2011 £'000s	Six Months to 31 July 2010 £'000s	Year to 31 January 2011 £'000s
Net cash inflow from operating activities	**12,856**	**11,571**	**22,695**
Return on investment and servicing of finance			
Interest paid	(4,793)	(4,780)	(9,537)
Dividends paid on Preference Stock	(43)	(21)	(21)
Net cash outflow from servicing of finance	**(4,836)**	**(4,801)**	**(9,558)**
Capital expenditure and financial investment			
Purchase of investments	(61,963)	(50,170)	(131,543)
Sale of investments	64,131	65,595	142,181
Net cash inflow from capital expenditure and financial investment	**2,168**	**15,425**	**10,638**
Equity dividends paid	**(11,766)**	**(11,663)**	**(23,429)**
Net cash (outflow) inflow before financing	**(1,578)**	**10,532**	**346**
Net cash inflow from financing	**-**	**-**	**-**
(Decrease) increase in cash	**(1,578)**	**10,532**	**346**

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

Total return before finance costs and taxation	9,250	21,305	86,835
Net losses (gains) on investments at fair value	3,740	(7,472)	(63,626)
	12,990	13,833	23,209
Increase in debtors	(519)	(2,181)	(635)
Increase (decrease) in creditors	385	(81)	121
Net cash inflow from operating activities	**12,856**	**11,571**	**22,695**

Reconciliation of net cash flow to movement in net debt

Net cash (outflow) inflow	(1,578)	10,532	346
Decrease in long term loans	82	40	2,273
Movement in net debt	(1,496)	10,572	2,619
Net debt brought forward	(101,928)	(104,547)	(104,547)
Net debt carried forward	**(103,424)**	**(93,975)**	**(101,928)**

NOTES
for the year ended 31 July 2011

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 2011 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 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.

RCM (UK) Limited ('RCM'), 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 .

The Company also makes limited additional and updated disclosures, mainly relating to the first and third quarters of the financial year. These Interim Management Statements are released through 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.

Note 2 – Accounting Policies

The condensed set of financial statements has been prepared using the same accounting policies as are set out in the Company's Annual report and Financial Statements for the year ended 31 January 2011.

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.

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 3 – Dividends on Ordinary Shares

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 2011 £'000s	Six months to 31 July 2010 £'000s	Year to 31 January 2011 £'000s
First Interim dividend 5.70p paid 20 August 2010	-	-	5,780
Second Interim dividend 5.70p paid 11 November 2010	-	-	5,883
Third Interim dividend 5.70p paid 18 February 2011 (2010 – 5.60p)	5,883	5,780	5,883
Final dividend 5.70p paid 13 May 2011 (2010 – 5.70p)	5,883	5,883	5,883
	11,766	11,663	23,429

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 2011 £'000s	Six months to 31 July 2010 £'000s	Year to 31 January 2011 £'000s
Third Interim dividend 5.70p paid 18 February 2011	-	-	5,883
Final dividend 5.70p paid 13 May 2011	-	-	5,883
First Interim dividend 5.70p paid 17 August 2011 (2010 - 5.70p)	5,883	5,883	-
Second Interim dividend 5.70p payable 11 November 2011 (2010 - 5.70p)	5,883	5,883	-
	11,766	11,766	11,766

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 4 – Return per Ordinary Share

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 2010 – 103,213,464 shares; 31 January 2011 – 103,213,464 shares).

Note 5 – Status of the Company

It is the intention of the Directors to conduct the affairs of the Company so that it satisfies the conditions for approval as an investment trust company set out in section 1158 of the Corporation Taxes Act 2010.

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