

The Merchants Trust PLC

Half-Yearly Financial Report for the six months ended 31 July 2012

The Merchants Trust PLC

HALF-YEARLY FINANCIAL REPORT
FOR THE SIX MONTHS ENDED
31 JULY 2012

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The Merchants Trust aims to provide an above average level of income and income growth together with long term growth of capital through a policy of investing mainly in higher yielding UK FTSE 100 companies.

The Trust's investment performance is assessed by comparison with other investment trusts within the UK Growth and Income sector. In addition, it is benchmarked against the FTSE 100 Index, as the primary benchmark reflecting the emphasis within the portfolio.

The Merchants Trust

The Merchants Trust was incorporated on 16 February 1889. It was launched by Robert Benson & Co., predecessors of the current Investment Manager, RCM (UK) Ltd, and originally invested mainly in American railroads. The initial capital was £2 million, of which half was subscribed.

Financial Highlights

	For the 6 months ended 31 July 2012	For the 6 months ended 31 July 2011	% change
Revenue			
Income	£15.24m	£14.25m	+6.9
Net revenue return attributable to Ordinary Shareholders	£12.90m	£11.96m	+7.9
Net revenue return per Ordinary Share	12.50p	11.59p	+7.9
Ordinary dividends per Ordinary Share	11.60p	11.40p	+1.8

	At 31 July 2012	At 31 January 2012	Capital return % change	Total return % change
Assets				
Total Assets less Current Liabilities	£537m	£526m	2.1	-
Net Assets	£426m	£415m	2.7	-
Net Assets (Debt at market value)	£386m	£378m	2.1	-
Net Asset Value per Ordinary Share	413.2p	402.1p	2.8	5.6*
Net Asset Value per Ordinary Share (Debt at market value)	373.6p	366.2p	2.0	5.2*
Ordinary Share Price	364.1p	363.0p	0.3	3.5
FTSE 100 Index	5,635.3	5,681.8	-0.8	1.4
Discount of Ordinary Share Price to Net Asset Value	11.9%	9.7%	n/a	-
Discount (Debt at market value)	2.5%	0.9%	n/a	-

* NAV total return reflects both the change in net asset value per ordinary share and the net ordinary dividends paid.

Performance Attribution Analysis against FTSE 100 Index	Capital Return %	Total Return %
Return of Index	-0.8	1.4
Relative return from portfolio	3.9	4.2
Return of portfolio	3.1	5.6
Impact of gearing on portfolio	0.8	0.8
Expenses charged to capital	-0.8	-0.8
Other	-0.3	0.0
Change in Net Asset Value per Ordinary Share	2.8	5.6

Interim Management Report

Highlights

- Net dividends declared in the first six months of 2012/13 are 11.6p per share, a 0.2p increase in the level of payment compared to the same period last year.
- Ordinary shares yield 6.2% at 372.6p, compared with 3.7% on the FTSE 100 Index at the close of business on 12 September 2012.
- The net asset value total return per share was 5.6% at 31 July 2012, compared to the FTSE 100 Index Total Return of 1.4% at the same date.
- The net asset value per share rose by 2.8% compared to a fall of 0.8% in the FTSE 100 Index.

Interim dividends

The Board has declared a second quarterly dividend of 5.8p per ordinary share, payable on 12 November 2012 to shareholders on the register at close of business on 5 October 2012. The total distribution declared for the first half of 2012/13 is 11.6p net, a 0.2p increase compared to the comparative period last year. As at 31 July 2012, the Trust's revenue reserve, after deducting the first and second interim dividends, represented 12.3p per share (2011 – 12.6p).

Net Revenue

Earnings in the first six months of the current year, to 31 July 2012, were 12.50p per Ordinary Share (2011 – 11.59p).

Net asset value

The NAV per ordinary share was 413.2p at 31 July 2012. This represents an increase of 2.8% when compared with the equivalent figure at 31 January 2012 - the end of the last financial year. Over the same period the FTSE 100 Index fell by 0.8%. The NAV with debt at fair value increased by 2.0%.

Material events and transactions

In the six month period ended 31 July 2012 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 5.8p per share was paid on 23 February 2012 to shareholders on the register on 27 January 2012. A final dividend of 5.8p per share was paid on 14 May 2012 to shareholders on the register on 13 April 2012. The total paid and declared for the year ended 31 January 2012 was 23.0p.

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 2013 of 5.8p per share was paid on 15 August 2012 to shareholders on the register on 13 July 2012.

Principal Risks and Uncertainties

The principal risks and uncertainties facing the Company are as follows:

Investment Activity and Strategy – an inappropriate strategy may lead to under-performance against the benchmark and peer group and also to the shares trading on a wider discount;

Corporate Governance and Shareholder Relations – weak adherence to best practice could damage reputation and cause shareholder discontent;

Financial – including market risk, liquidity risk and credit risk. The Board's approach to mitigating these risks and uncertainties is set out in the Annual Financial Report. In the Board's view these remain the principal risks and uncertainties for the six months to 31 January 2013.

Interim Management Report

(continued)

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 26.0% compared to 26.8% at 31 January 2012. The impact of the gearing on the NAV was 0.8%. During the period, bond yields continued to fall causing the market value of the debt to increase, which depressed the fair value NAV. However, as the debt approaches maturity the value of the debt should approach par, having a more positive effect on the NAV.

Prospects

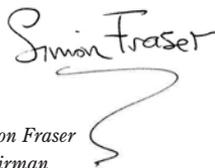
Economic growth in most of the developed world is likely to remain below trend in the medium term due to the high debt overhang. However the corporate sector has adapted to this challenging environment by driving operating efficiency and strengthening balance sheets. Stock market valuations are reasonable in aggregate and dividend growth is positive, supported by low payout ratios. The investment portfolio is predominantly invested in cash generative large companies, with globally diversified operations, paying above average dividend yields. This reflects the Trust's objectives and commitment to the delivery of long term income and capital growth.

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 13 September 2012 and the above responsibility statement was signed on its behalf by the Chairman.



Simon Fraser
Chairman

155 Bishopsgate
London EC2M 3AD

13 September 2012

Fund Manager's Report

Economic and Market Background

Economic conditions in 2012 have remained challenging, with expectations for growth coming down in most regions of the world. This follows the pattern we described in the last annual report. The fundamental problem of excess debt in the financial system is constraining activity as consumers, companies and governments all try to reduce leverage at the same time. Whilst there have been periods of optimism that the US economy might be recovering or that the Eurozone crisis has been addressed, these periods have so far proved short-lived and have been succeeded by a realisation that the underlying problems remain in place. There has been an inability or unwillingness on the part of policy makers to convincingly address the systemic issues created by excess debt.

The UK has entered a double-dip recession, although this downturn is far milder than the last. Large parts of the Eurozone, particularly in the periphery, are also in recession. The USA has performed better but growth expectations for next year have come down

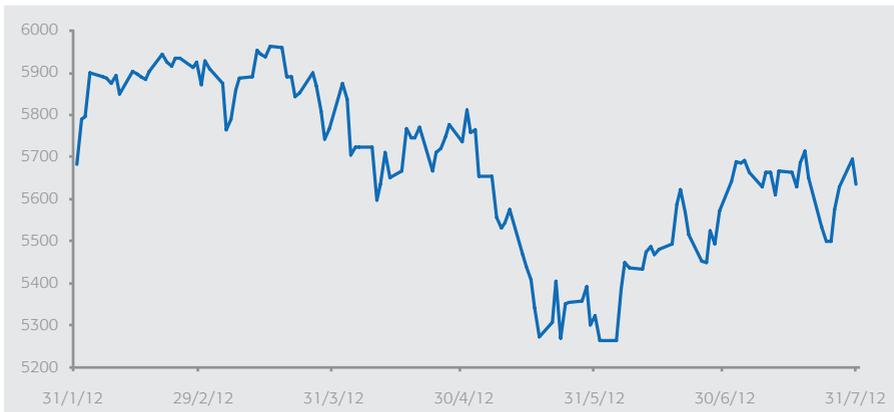
as the country faces a potential fiscal cliff after the November presidential election. Emerging markets have not been a panacea with Chinese, Indian and Brazilian economic growth rates declining sharply.

In contrast to the difficult economic environment, trading for many UK quoted companies has been relatively resilient. The most notable exception would be in the natural resources sector, where a fall in commodity prices has led to a significant decline in profit expectations. Consensus forecasts are now for a slight drop in aggregate UK earnings in 2012, although this is entirely driven by the outlook for the mining and energy sectors.

The stock market traded within a fairly narrow range during the period and the FTSE 100 Index has now remained broadly within a 5,000 to 6,000 range since late 2009. Modest share valuations have provided support at the bottom end of this range, whilst macro-economic concerns have limited enthusiasm at the top end. The closing level of the FTSE 100 Index at the end of July was less than 1% below the value at the end of January. Including dividends the total return was +1.4% in the half year.

FTSE 100 Price Index 31 Jan 2012 to 31 July 2012

(High 5965.58 on 16/3/12, Low 5260.19 on 1/6/12)



Source: Thomson DataStream

Fund Manager’s Report

(continued)

Within the stock market, performance was polarised as investors generally sought resilient, high return businesses with defensive earnings streams, although there were exceptions. The best performing sectors produced strong double-digit returns and included beverages, tobacco, food producers, utilities, real estate, general industrials, aerospace & defence and travel & leisure. Conversely the mining and metals sectors fell heavily whilst the large oil & gas and banks sectors produced negative returns. High yielding companies in general out-performed the broader market, as did small and medium sized companies.

Performance

The investment portfolio of the Trust produced a total return of +5.6% during the period, excluding the effects of gearing. Performance was ahead of the return of +1.4% on the FTSE 100 Index, reflecting a

bias towards relatively defensive and higher yielding shares in the portfolio as well as specific stock selection gains.

The table below shows the estimated performance attribution by individual company names. The biggest positive factor came from avoiding certain shares which underperformed. The portfolio had no exposure to three large mining companies, Rio Tinto, Anglo American and Xstrata or to BG where share prices fell and held back the FTSE 100 benchmark return. Elsewhere significant gains within the portfolio were broadly spread with media company UBM and aerospace & defence stock Cobham rising after strong results. The utility stock SSE delivered a robust return and two consumer companies, Sainsbury and Greene King rose strongly from initially low valuations in response to robust trading. Finally within the top ten positives, an underweight exposure to Barclays was beneficial as that share fell heavily.

Table of Estimated Contribution to Investment Performance Relative to FTSE 100 Index 1 February 2012 to 31 July 2012

Positive Contribution	%	Over/under Weight	Negative Contribution	%	Over/under Weight
Rio Tinto	0.8	-	Diageo	-0.5	-
Anglo American	0.7	-	Resolution	-0.5	+
UBM	0.4	+	Britvic	-0.2	+
BG	0.4	-	SabMiller	-0.2	-
Xstrata	0.4	-	Man Group	-0.2	+
Cobham	0.3	+	AstraZeneca	-0.2	-
SSE	0.3	+	Rolls Royce	-0.1	-
Sainsbury (J)	0.3	+	Prudential	-0.1	-
Barclays	0.3	-	British American Tobacco	-0.1	-
Greene King	0.2	+	Premier Farnell	-0.1	+

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

Fund Manager's Report

(continued)

There were fewer negative contributors with the main impact split between stocks in the portfolio that fell back and large companies that rose sharply but were not owned or underweight in the portfolio. The fallers included life insurer Resolution which disappointed investors by cancelling an expected capital return and beverage company Britvic that had a product recall. Also hedge fund manager Man Group was weak as asset flows disappointed and the electronic component distributor Premier Farnell underperformed on cyclical concerns. The underweight positions that detracted from performance were mainly defensive stocks, such as beverage stocks Diageo and SAB Miller, AstraZeneca in the pharmaceuticals sector and British American Tobacco. Rolls Royce and Prudential also performed well on the back of strong trading and made a modest impact.

“Whilst we believe that relatively secure earnings streams will continue to be well rewarded in a difficult economic environment, we are wary of paying too much for this perceived security.”

Portfolio Changes

In a period where our views on the macro-economic outlook have not changed materially, much of the investment activity has been driven by stock specific considerations. Investment decisions typically reflected either a change in our view of a company's prospects or share price movements which affected the company's valuation. The most notable theme was to take profits on several defensive shares after

significant share price appreciation had pushed valuations to more challenging levels. Whilst we believe that relatively secure earnings streams will continue to be well rewarded in a difficult economic environment, we are wary of paying too much for this perceived security. In this context the entire position in Bunzl was sold for a good profit and we reduced the holdings in Compass, SSE, Vodafone, Imperial Tobacco and others.

There were three new companies added to the portfolio; BBA Aviation, Smiths Group and Marston's. BBA provides a number of services to the aviation industry such as operating bases for corporate jets, de-icing aeroplanes, repairing and maintaining engines and manufacturing specialist aerospace components. The broad spread of activities and strong competitive position gives the business some resilience and it is highly cash generative. Corporate jet travel has not yet returned to previous peak levels in the key US market and any recovery would provide incremental growth which is not priced into the company's modest valuation.

Smiths Group is a diversified industrial company with activities spanning mechanical seals for the oil & gas industry, consumable medical products, detection machines for security at ports, borders and commercial sites and several other products. Smith's major divisions have strong competitive positions and earn high returns, with mechanical seals and detection having significant growth opportunities and medical being turned around after a period of modest growth. We believe that the valuation of the shares does not reflect the high quality of the businesses or their medium term growth potential.

Marston's is a brewing and pub retailing business operating from over 2000 managed and tenanted pubs and 5 regional breweries. The investment rationale is similar to Greene King which was purchased last year. The business has a successful

Fund Manager's Report

(continued)

strategy based upon their "F" plan; food, families, females and "forties, fifties & beyond". Well managed pubs are benefiting in a price conscious consumer environment, with menu prices below those of typical restaurant chains. The shares were lowly valued with strong cash flow, an attractive dividend yield and a substantial freehold property base encompassing almost the entire estate.

In addition to these new investments, we added to several existing portfolio holdings. In the media sector we took advantage of price weakness to add to Reed Elsevier and Daily Mail & General Trust which both have strong and diverse business franchises. We increased exposure to the oil majors BP and Royal Dutch Shell which had both lagged the performance of higher yielding shares and traded on modest valuations. Elsewhere significant additions included Resolution which had fallen to compelling valuation levels and both Inmarsat and Carnival where our conviction on the investment case had risen. We also made our first addition within the mining sector for some time, increasing the BHP Billiton holding after significant price weakness had brought the valuation down to more realistic levels.

In the food retail sector we sold out of Tesco after a profit warning revealed some operating challenges in their UK business which may take time to sort out. Instead we added to Sainsbury which was on a similar valuation, yet seeing more robust trading despite the difficult environment. There were two other complete sales from the portfolio. Despite a low valuation, we exited the pharmaceutical company AstraZeneca which faces a challenging period ahead with imminent patent expiries on several of its key products. We also sold life insurer, Legal & General, which reached a full valuation after a long period of solid share price performance. Elsewhere we partially sold a number of other investments, notably taking profits in BT and Cobham after strong performance.

Derivatives Strategy

The Trust operates a policy of selectively writing covered call options on stocks within the portfolio within strictly controlled limits. The strike prices of options represent levels where we would be willing to sell the relevant share holdings. In the period an additional £890,000 of income was generated by this strategy, which also made a positive contribution to the total return after allowing for the opportunity cost of any exercised options.

"The UK (non-financial) corporate sector has adapted to the challenging environment by cutting costs and rebuilding financial ratios."

Outlook

The economic outlook has not changed materially from the end of last year. Our central view remains that growth in the UK and developed economies is likely to be below trend for a prolonged period as high government and consumer debt levels are gradually worked off. We may see periods of recovery but the risks are generally to the downside as policymakers grapple with major political and economic issues, especially within the Eurozone. Emerging markets are likely to grow faster than the West but they also face considerable issues.

The UK (non-financial) corporate sector has adapted to the challenging environment by cutting costs and rebuilding financial ratios such that many companies now show healthy levels of profits and cash-flows and balance sheets are generally robust. The UK stock market also benefits from having a

Fund Manager's Report

(continued)

limited exposure to cyclical consumer or industrial sectors, outside of mining, and a high exposure to more resilient industries such as pharmaceuticals, telecommunications, food producers, integrated oil producers and utilities.

“Aggregate valuations of UK companies are reasonable on a long term basis, suggesting that the market can deliver respectable long term returns from here.”

Aggregate valuations of UK companies are reasonable on a long term basis, suggesting that the market can deliver respectable long term returns from here. However slowing economic growth has brought down profits forecasts recently and the risks of an economic or political shock are high. Within the market there is a wide disparity between the valuation of perceived defensive shares, such as food producers, beverages and tobacco companies, and cyclical and financial shares. As described in the Portfolio Changes section, whilst we maintain a relatively defensive portfolio stance, reflecting the challenging economic environment, we have moved more of the portfolio into modestly cyclical businesses in the last few months.

We see specific opportunities in sectors like aerospace & defence, media and travel & leisure, to invest in strong businesses with sound long term prospects on low valuations. While the short term trading environment carries risks, these companies look well placed to weather the storm and provide strong returns over time. We also see specific opportunities in the financial sector, particularly in real estate, insurance and financial services. The portfolio only has a modest exposure to the domestic banking sector.

Dividends

The Merchants Trust has a long history of paying rising dividends. Income growth remains an important objective reflected within the portfolio's stock selection. The outlook for UK dividends is reasonably healthy with many companies having strengthened balance sheets and improved cash-flow in recent years, whilst payout ratios are low. Consensus expectations show mid-single digit dividend growth for the UK market in aggregate.

Simon Gergel
RCM (UK) Limited

Investment Portfolio

as at 31 July 2012

Twenty Largest Equity Holdings

Security Name	Market Value £'000s	Total Assets %	Principal Activity
Royal Dutch Shell 'B' Shares	46,751	8.70	Oil & Gas Producers
GlaxoSmithKline	40,956	7.62	Pharmaceuticals & Biotechnology
BP	36,327	6.76	Oil & Gas Producers
HSBC	33,786	6.29	Banks
Vodafone	28,975	5.39	Mobile Telecommunications
BAE Systems	20,387	3.79	Aerospace & Defence
British American Tobacco	18,832	3.50	Tobacco
Unilever	18,435	3.43	Food Producers
Reed Elsevier	16,671	3.10	Media
SSE	15,887	2.96	Electricity
National Grid	15,662	2.91	Gas, Water & Multiutilities
Resolution	14,113	2.63	Life Insurance
Reckitt Benckiser	14,024	2.61	Household Goods & Home Construction
Sainsburys (J)	13,396	2.49	Food & Drug Retailers
UBM	13,305	2.48	Media
Centrica	12,934	2.41	Gas, Water & Multiutilities
BHP Billiton	12,747	2.37	Mining
Daily Mail & General Trust "A" Shares	12,405	2.31	Media
Carnival	9,232	1.72	Travel & Leisure
BT	8,407	1.56	Fixed Line Telecommunications
	403,232	75.03	

* Total Assets include current liabilities

Portfolio Analysis

Security Name	Market Value £'000s	Total Assets %	** Total Assets include current liabilities
Financials	86,769	16.15	As at 31 July 2012 call options were written over 6.2% of the portfolio. During the period, income generated from call options amounted to £886,683.
Consumer Services	83,804	15.59	
Oil & Gas	83,078	15.46	
Consumer Goods	66,877	12.44	
Industrials	59,738	11.12	
Telecommunications	45,627	8.49	
Utilities	44,482	8.28	
Health Care	40,956	7.62	
Basic Materials	12,747	2.37	
Net Current Assets	13,337	2.48	
	537,415	100.00	

Income Statement and Balance Sheet

Income Statement

for the six months ended 31 July 2012

	Revenue £'000s	Capital £'000s	Total Return £'000s
			(Note 1)
Net gains (losses) on investments held at fair value	-	14,183	14,183
Income from investments	14,357	-	14,357
Other income	887	-	887
Investment management fee	(325)	(604)	(929)
Administration expenses	(353)	(2)	(355)
Net return before finance costs and taxation	14,566	13,577	28,143
Finance costs: interest payable and similar charges	(1,665)	(3,052)	(4,717)
Net return on ordinary activities before taxation	12,901	10,525	23,426
Taxation	-	-	-
Net return attributable to Ordinary Shareholders	12,901	10,525	23,426
Net return per Ordinary Share (Note 4)			
Basic and diluted	12.50p	10.20p	22.70p

Balance Sheet

as at 31 July 2012

	£'000s
Investments held at fair value through profit or loss	524,078
Net current assets	13,337
Total Assets less Current Liabilities	537,415
Creditors: amount falling due after more than one year	(110,936)
Total Net Assets	426,479
Called up Share Capital	25,803
Share Premium Account	8,523
Capital Redemption Reserve	293
Capital Reserve	367,209
Revenue Reserve	24,651
Equity Shareholders' Funds	426,479
Net Asset Value per Ordinary Share (basic and diluted)	413.2p

The net asset value is based on 103,213,464 Ordinary Shares in issue.

for the six months ended 31 July 2011			for the year ended 31 January 2012		
Revenue £'000s	Capital £'000s	Total Return £'000s	Revenue £'000s	Capital £'000s	Total Return £'000s
		(Note 1)			(Note 1)
-	(3,740)	(3,740)	-	(17,683)	(17,683)
13,457	-	13,457	25,429	-	25,429
790	-	790	1,876	-	1,876
(343)	(636)	(979)	(658)	(1,221)	(1,879)
(277)	(1)	(278)	(611)	(3)	(614)
13,627	(4,377)	9,250	26,036	(18,907)	7,129
(1,665)	(3,053)	(4,718)	(3,324)	(6,094)	(9,418)
11,962	(7,430)	4,532	22,712	(25,001)	(2,289)
-	-	-	-	-	-
11,962	(7,430)	4,532	22,712	(25,001)	(2,289)
11.59p	(7.20)p	4.39p	22.00p	(24.22)p	(2.22)p

as at 31 July 2011	as at 31 January 2012
£'000s	£'000s
537,083	512,070
7,632	13,976
544,715	526,046
(111,103)	(111,021)
433,612	415,025
25,803	25,803
8,523	8,523
293	293
374,255	356,684
24,738	23,722
433,612	415,025
420.1p	402.1p

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

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

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 2012						
Net Assets at 31 January 2012	25,803	8,523	293	356,684	23,722	415,025
Revenue Return	-	-	-	-	12,901	12,901
Dividends on Ordinary Shares	-	-	-	-	(11,972)	(11,972)
Capital Return	-	-	-	10,525	-	10,525
Net Assets at 31 July 2012	25,803	8,523	293	367,209	24,651	426,479
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
Year ended 31 January 2012						
Net Assets at 31 January 2011	25,803	8,523	293	381,685	24,542	440,846
Revenue Return	-	-	-	-	22,712	22,712
Dividends on Ordinary Shares	-	-	-	-	(23,532)	(23,532)
Capital Return	-	-	-	(25,001)	-	(25,001)
Net Assets at 31 January 2012	25,803	8,523	293	356,684	23,722	415,025

Cash Flow Statement

	Six Months ended 31 July 2012 £'000s	Six Months ended 31 July 2011 £'000s	Year ended 31 Jan 2012 £'000s
Net cash inflow from operating activities	12,990	12,856	23,792
Return on investment and servicing of finance			
Interest paid	(3,475)	(4,793)	(9,546)
Dividends paid on Preference Stock	(21)	(43)	(43)
Net cash outflow from servicing of finance	(3,496)	(4,836)	(9,589)
Capital expenditure and financial investment			
Purchase of investments	(66,918)	(61,963)	(114,624)
Sale of investments	70,416	64,131	128,095
Net cash inflow from capital expenditure and financial investment	3,498	2,168	13,471
Equity dividends paid	(11,972)	(11,766)	(23,532)
Increase (Decrease) in cash	1,020	(1,578)	4,142
Reconciliation of Return on Ordinary Activities before Taxation to Net Cash Flow from Operating Activities			
Total return before finance costs and taxation	28,143	9,250	7,129
Net (gains) losses on investments at fair value	(14,183)	3,740	17,683
	13,960	12,990	24,812
Decrease (Increase) in debtors	482	(519)	(1,013)
(Decrease) Increase in creditors	(1,452)	385	(7)
Net cash inflow from operating activities	12,990	12,856	23,792
Reconciliation of net cash flow to movement in net debt			
Net cash inflow (outflow)	1,020	(1,578)	4,142
Decrease in long term loans	85	82	164
Movement in net funds (debt)	1,105	(1,496)	4,306
Net debt brought forward	(97,622)	(101,928)	(101,928)
Net debt carried forward	(96,517)	(103,424)	(97,622)

Notes

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 2012 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 on the basis of the accounting policies as set out in the Company's Annual report and Financial Statements for the year ended 31 January 2012.

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.

Notes

(continued)

Dividends paid on Ordinary Shares in respect of earnings for each period are as follows:

	Six Months ended 31 July 2012 £'000s	Six Months ended 31 July 2011 £'000s	Year ended 31 Jan 2012 £'000s
First Interim dividend 5.70p paid 17 August 2011	-	-	5,883
Second Interim dividend 5.70p paid 11 November 2011	-	-	5,883
Third Interim dividend 5.80p paid 23 February 2012 (2011 – 5.70p)	5,986	5,883	5,986
Final dividend 5.80p paid 14 May 2012 (2011 – 5.70p)	5,986	5,883	5,986
	11,972	11,766	23,738

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 ended 31 July 2012 £'000s	Six Months ended 31 July 2011 £'000s	Year ended 31 Jan 2012 £'000s
Third Interim dividend 5.80p paid 23 February 2012	-	-	5,986
Final dividend 5.80p paid 14 May 2012	-	-	5,986
First Interim dividend 5.80p paid 15 August 2012 (2011 - 5.70p)	5,986	5,883	-
Second Interim dividend 5.80p payable 12 November 2012 (2011 - 5.70p)	5,986	5,883	-
	11,972	11,766	11,972

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 2011 – 103,213,464 shares; 31 January 2012 – 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.

Note 6 – Transactions with the Investment Manager and related parties

As disclosed in the Annual Financial Report, the only related parties are the Investment Manager and the directors. Other than fees payable in the ordinary course of business as described in the disclosures in that report, there have been no material transactions with related parties affecting the financial position or performance of the Company in the six months under review.

Investor Information

Directors

Simon Fraser (Chairman)
 Mike McKeon (Chairman – Audit Committee)
 Henry Staunton
 Paul Yates

Managers

RCM (UK) Limited, 155 Bishopsgate, London EC2M 3AD. Telephone: 020 7859 9000.
 Represented by Simon Gergel.
 Allianz Global Investors is the marketing name of RCM (UK) Limited, which is authorised and regulated by the Financial Services Authority.

Secretary and Registered Office

Kirsten Salt BA (Hons) ACIS, 155 Bishopsgate, London EC2M 3AD. Telephone: 020 7065 1513.
 Registered Number: 28276.

Registrars

Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.
 Telephone (if calling from within the UK): 0871 664 0300 (calls cost 10p per minute plus network extras).
 Lines are open 8.30 a.m. - 5.30 p.m. Mon - Fri.
 Telephone (if calling from overseas): +44 20 8639 3399.
 Email: ssd@capitaregistrars.com

Results

Half year announced in September.
 Full year announced in March.
 Annual Financial Report posted to shareholders in April.
 Annual General Meeting held in May.

Ordinary Dividends 2012/2013

	Dividend	Payment Date
First interim	5.80p	15 August 2012
Second interim	5.80p	12 November 2012
Third interim		February 2013
Final		May 2013

Website

Further information about the Company is available on the website: www.merchantstrust.co.uk.

Net Asset Value

The Net Asset Value of the Ordinary Shares is calculated daily and the top ten holdings are announced monthly. They are published through the London Stock Exchange Regulatory News Service. The Company's share price is published in the Daily Telegraph and Financial Times. The net asset values and share prices are also available from Allianz Global Investors, via Investor Services on 0800 389 4696 or on the Managers' website: www.rcm.com/investmenttrusts.

Shareholders' Enquiries

Capita Registrars maintain the share register. In the event of queries regarding shareholdings, lost certificates, registered details, etc., shareholders should contact the registrars. Changes of name or address must be notified to the registrars in writing. Any general enquiries about the Company should be directed to the Company Secretary, at the Registered Office.

AIC Membership

The Company is a member of the Association of Investment Companies. Category: UK Growth & Income.

