

For immediate release

7 April 2009

THE MERCHANTS TRUST PLC

Final Results for the year ended 31 January 2009

The following comprises extracts from the Company's Annual Financial Report for the year ended 31 January 2009. The full Annual Financial Report is available to be viewed on or downloaded from the company's website at www.merchantstrust.co.uk. Copies will be posted to shareholders shortly.

MANAGEMENT REPORT

Chairman's Statement

Market and Portfolio Background

Over the past year the world's financial system has gone through its greatest crisis since the incorporation of the Trust 120 years ago and the Trust has suffered severely from the resulting weakness of equity markets. The impact of these extraordinary market conditions on the Trust's portfolio is described in some detail in the Investment Manager's Review in the Annual Financial Report.

Results

The net asset value per share fell by 37.8% to 306.2p and the total return per share, including dividends paid, was -33.2%. This compares with the total returns of -26.3% and -25.9% recorded by the FTSE 100 Index and the FTSE 350 Higher Yield Index, respectively.

Gearing had a sharply negative effect on the net asset value, reducing the returns to shareholders by approximately 7.6%. The full performance breakdown is shown on page 5 in the Annual Financial Report. In the twelve months to 31 January 2009, the Trust's share price fell by 33.6% from 425.0p to 282.0p. At 3 April 2009, the Trust's ordinary shares yielded 8.7% compared with the yield on the FTSE 100 Index of 5.1%.

Earnings per share

In 2008/9 earnings per share rose by 19.2% to 27.25p. This year's earnings include a VAT refund of £1,806,000 (including interest) (2008 – nil). Excluding the VAT refund, the net return attributable to Ordinary Shareholders increased by 10.8%.

Dividends

The Board is recommending a final ordinary dividend of 5.6p per share, payable on 15 May 2009 to Shareholders on the register on 17 April 2009. This payment would give a total of 22.3p for the year, an increase of 3.2% over the total for the previous year. In addition shareholders will receive a special dividend of 0.5p per Ordinary Share in respect of the recovery of VAT for the period 1990 to 1996 described below.

This year's earnings per share have significantly exceeded the dividend, leading to an increase in the Revenue Reserve after allowing for payment of the special dividend and the third and final dividends, of £4.6m, or 4.45p per share. A number of companies in which the Trust is invested have already announced cuts in their dividends and more may be expected to do so; the Trust's Revenue Reserve of 17.6p per Ordinary Share will offer some protection to shareholders in respect of the Trust's own distributions.

Gearing and Balance Sheet

During the past year the Board has maintained the company's investment policy of remaining substantially fully invested. In forming this view, the Board has been mindful that the published objective of the Trust is to provide a high and growing level of dividend income for shareholders over the long term by investing in equities. Reducing our equity investments in order to offset our long term debt with cash would reduce the Trust's income and the potential for long term growth.

A consequence of this investment policy and the fall in equity markets is that the Trust's gearing has increased. The book value of long term debt as a percentage of the Company's net assets was 36.0% at 31 January 2009 and, given current market conditions, it is possible that gearing may rise further. The Board is exploring the possibility of issuing new equity should conditions prove favourable – any issue would only be at a premium to the Company's cum-income net asset value with debt at market value – and the Company has recently obtained approval for a listing of up to 10% of its share capital to facilitate this. We are also exploring the possibility of using exchange-traded stock and index options with the aim of reducing the volatility of our net assets.

VAT

As mentioned above we have received a refund of VAT in respect of the period 1990 to 1996 which, including interest, totals £2,011,000. This figure has been incorporated in our results for the financial period under review. We are at an advanced stage in our discussions with our investment manager and hope soon to conclude a settlement in excess of £1.2 million in respect of the 2000 to 2007 period, which we anticipate will be reflected in the current financial year.

Repurchase of Shares

During the financial year no shares were bought back for cancellation. However, as in previous years, the Board is proposing to renew the authority to repurchase shares at the forthcoming Annual General Meeting on 12 May 2009.

The Trust's Board

Joe Scott Plummer, who joined the Board in May 1997, will be retiring at this year's Annual General Meeting. He has made a considerable contribution as a director of the Trust, having served as Chairman of the Audit Committee and as our Senior Independent Director, and we will miss him.

Prospects

The decline of economic activity in recent months has been harsh and extraordinary. Confidence remains very fragile and it will take time before it can be rebuilt. It is the task of our Manager to assemble a portfolio of UK companies which have the prospect of surviving the current uncertainty, of maintaining our income and prospering when conditions improve. As in previous cycles, however, the market is likely to anticipate a recovery in the economy before it arrives and the Manager will also be looking to take advantage of any attractive investment opportunities.

Annual General Meeting

The Annual General Meeting of the Company will be held on Tuesday 12 May 2009 at 12.00 noon and we look forward to seeing as many shareholders then as are able to attend.

Principal Risks and Uncertainties

With the assistance of the Manager the Board has drawn up a risk matrix which identifies the key risks to the Company. These key risks fall broadly under the following categories:

- Investment Activity and Strategy: 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, and also in the Company's shares trading on a wider discount. The Board manages these risks by diversification of investments through its investment restrictions and guidelines which are monitored and on which the Board receives reports. RCM (UK) Limited ("RCM") provides the Directors with management information including performance data and reports and shareholder analyses. The Board monitors the implementation and results of the investment process with the investment manager, who attends all board meetings, and reviews

data which show risk factors and how they affect the portfolio. The Board reviews investment strategy at each board meeting.

- Accounting, Legal and Regulatory: In order to qualify as an investment trust the Company must comply with Section 842 of the Income and Corporation Taxes Act 1988 ("Section 842"). A breach of Section 842 could result in the Company losing investment trust status and, as a consequence, gains in the Company's portfolio would be subject to Corporation Tax. The Section 842 criteria are monitored by RCM and results are reported to the Board at each Board Meeting. The Company must comply with the provisions of the Companies Act 1985, and the Companies Act 2006 as it becomes enacted ("Companies Acts"), and, as the Company's shares are listed on the London Stock Exchange, the Company must comply with the UK Listing Authority's Listing Rules and Disclosure Rules ("UKLA Rules"). A breach of the Companies Acts could result in the Company and/or the Directors being fined or becoming the subject of criminal proceedings. Breach of the UKLA Rules could result in the suspension of the Company's shares which would in turn lead to a breach of Section 842. The Board relies on its company secretary and seeks advice from professional advisers to ensure compliance with the Companies Acts and UKLA Rules.
- Corporate Governance and Shareholder Relations: Details of the Company's compliance with Corporate Governance best practice, including information on relations with shareholders, are set out in the Corporate Governance Statement in the Annual Financial Report.
- Operational: Disruption to, or failure of, RCM's accounting, dealing or payment systems or the custodian's records may prevent accurate reporting and monitoring of the Company's financial position. RCM has contracted operational functions, principally relating to trade processing and investment administration, to The Bank of New York Mellon – London Branch. Details of how the Board monitors the services provided by RCM and other suppliers and the key elements designed to provide effective internal control are included within the Internal Control section of the Corporate Governance Statement in the Annual Financial Report.
- Financial: The financial risks associated with the Company include market risk (price and yield), interest rate risk, liquidity risk and credit risk. Further analysis of these risks can be found in Note 21 in the Annual Financial Report.

Related Party Transactions

During the financial year no transactions with related parties have taken place which would materially affect the financial position or the performance of the Company.

Statement of Directors' Responsibilities

The Annual Financial Report contains a responsibility statement in the following form:

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

- the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Annual Financial Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board of Directors

Hugh Stevenson
Chairman

THE MERCHANTS TRUST PLC
Final Results for the year ended 31 January 2009

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INVESTMENT PORTFOLIO as at 31 January 2009

Listed Holdings

Name	Value (£)	Principal Activities
Royal Dutch Shell 'B' Shares	44,822,365	Oil & Gas Producers
GlaxoSmithKline	39,849,110	Pharmaceuticals & Biotechnology
Vodafone	38,678,809	Mobile Telecommunications
BP	35,723,733	Oil & Gas Producers
BAE Systems	18,945,726	Aerospace & Defence
Scottish & Southern Energy	16,986,000	Electricity
British American Tobacco	15,186,510	Tobacco
HSBC	14,878,200	Banking
AstraZeneca	14,012,250	Pharmaceuticals & Biotechnology
BHP Billiton	13,452,000	Mining
Centrica	13,425,697	Gas, Water & Multiutilities
Reed Elsevier	12,437,031	Media
BT	12,257,565	Fixed Line Telecommunications
Aviva	10,592,400	Life Insurance
National Grid	10,416,700	Gas, Water & Multiutilities
Unilever	8,485,950	Food Producers
Anglo American	6,691,616	Mining
Man Group	5,765,322	General Financial
Compass	5,577,812	Travel & Leisure
Diageo	5,522,400	Beverages
Brit Insurance	5,355,222	Non-Life Insurance
Britvic	5,098,180	Beverages
Sage	4,987,320	Software & Computer Services
Halfords	4,829,399	General Retailers
Legal & General	4,737,040	Life Insurance
Lloyds Banking	4,527,727	Banking
Rexam	3,723,205	General Industrials
Meggitt	3,518,999	Aerospace & Defence
Barclays	3,204,220	Banking
Severn Trent	3,127,526	Gas, Water & Multiutilities
Home Retail	3,036,057	General Retailers
Dairy Crest	2,796,500	Food Producers
Melrose	2,671,790	Industrial Engineering
Arriva	2,450,300	Travel & Leisure
GKN	2,305,800	Automobiles & Parts
Balfour Beatty	2,223,000	Construction & Materials
IG Group	2,169,030	General Financial
Interserve	2,121,275	Support Services
International Personal Finance	1,590,625	General Financial
Inchcape	1,307,475	General Retailers
Informa	1,168,650	Media
Marshalls	980,000	Construction & Materials
Pendragon	131,630	General Retailers
Total Listed Investments	411,768,166	

INCOME STATEMENT
for the year ended 31 January 2009

	Revenue Return £	Capital Return £	Total Return £
			(Note C)
Net losses on investments at fair value	-	(189,593,060)	(189,593,060)
Income	31,729,754	-	31,729,754
Investment management fee	(658,425)	(1,222,788)	(1,881,213)
Investment management fee VAT refund	966,622	205,850	1,172,472
Administration expenses	(599,808)	(2,967)	(602,775)
Net return before finance costs and taxation	31,438,143	(190,612,965)	(159,174,822)
Finance costs: interest payable and similar charges	(3,420,245)	(6,271,962)	(9,692,207)
Net return on ordinary activities before taxation	28,017,898	(196,884,927)	(168,867,029)
Taxation	-	-	-
Net return on ordinary activities attributable to Ordinary Shareholders	28,017,898	(196,884,927)	(168,867,029)
Return per Ordinary Share (basic and diluted) (Note B)	27.25p	(191.50p)	(164.25p)

BALANCE SHEET

as at 31 January 2009

	2009 £	2009 £
Fixed Assets		
Investments held at fair value through profit or loss		411,795,591
Current Assets		
Debtors	3,877,216	
Cash at bank	14,511,020	
	18,388,236	
Creditors – Amounts falling due within one year	(1,906,701)	
Net Current Assets		16,481,535
Total Assets Less Current Liabilities		428,277,126
Creditors – Amounts falling due after more than one year		(113,473,090)
Total Net Assets		314,804,036
Capital and Reserves		
Called up Share Capital		25,703,366
Share Premium Account		7,527,047
Capital Redemption Reserve		292,853
Capital Reserves: Realised	385,617,142	
Unrealised	(134,498,602)	
		251,118,540
Revenue Reserve		30,162,230
Equity Shareholders' Funds		314,804,036
Net Asset Value per Ordinary Share		306.2p

INCOME STATEMENT
for the year ended 31 January 2008

	Revenue Return £	Capital Return £	Total Return £ (Note C)
Net losses on investments at fair value	-	(72,106,540)	(72,106,540)
Income	28,495,032	-	28,495,032
Investment management fee	(899,044)	(1,669,652)	(2,568,696)
Investment management fee VAT refund	-	-	-
Administration expenses	(585,839)	(2,560)	(588,399)
Net return before finance costs and taxation	27,010,149	(73,778,752)	(46,768,603)
Finance costs: interest payable and similar charges	(3,342,277)	(6,116,736)	(9,459,013)
Net return on ordinary activities before taxation	23,667,872	(79,895,488)	(56,227,616)
Taxation	(18,052)	-	(18,052)
Net return on ordinary activities attributable to Ordinary Shareholders	23,649,820	(79,895,488)	(56,245,668)
Return per Ordinary Share (basic and diluted) (Note B)	22.86p	(77.23p)	(54.37p)

BALANCE SHEET
as at 31 January 2008

	2008 £	2008 £
Fixed Assets		
Investments held at fair value through profit or loss		608,450,967
Current Assets		
Debtors	7,333,938	
Cash at bank	5,945,385	
	<u>13,279,323</u>	
Creditors – Amounts falling due within one year	<u>(2,129,286)</u>	
Net Current Assets		<u>11,150,037</u>
Total Assets Less Current Liabilities		619,601,004
Creditors – Amounts falling due after more than one year		<u>(113,413,791)</u>
Total Net Assets		506,187,213
Capital and Reserves		
Called up Share Capital		25,703,366
Share Premium Account		7,527,047
Capital Redemption Reserve		292,853
Capital Reserves: Realised	431,358,941	
Unrealised	<u>16,644,526</u>	
		448,003,467
Revenue Reserve		24,660,480
Equity Shareholders' Funds		<u>506,187,213</u>
Net Asset Value per Ordinary Share		492.3p

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the year ended 31 January 2009

	Called up Share Capital £	Share Premium Account £	Capital Redemption Reserve £	Capital Reserve Realised £	Capital Reserve Unrealised £	Revenue Reserve £	Total £
Net Assets at 31 January 2007	25,939,969	7,527,047	56,250	401,295,652	131,247,275	22,768,482	588,834,675
Revenue Return	-	-	-	-	-	23,649,820	23,649,820
Dividends on Ordinary Shares	-	-	-	-	-	(21,757,822)	(21,757,822)
Capital Return	-	-	-	34,707,261	(114,602,749)	-	(79,895,488)
Shares repurchased during the year	(236,603)	-	236,603	(4,643,972)	-	-	(4,643,972)
Net Assets at 31 January 2008	25,703,366	7,527,047	292,853	431,358,941	16,644,526	24,660,480	506,187,213
Net Assets at 31 January 2008	25,703,366	7,527,047	292,853	431,358,941	16,644,526	24,660,480	506,187,213
Revenue Return	-	-	-	-	-	28,017,898	28,017,898
Dividends on Ordinary Shares	-	-	-	-	-	(22,516,148)	(22,516,148)
Capital Return	-	-	-	(45,741,799)	(151,143,128)	-	(196,884,927)
Net Assets at 31 January 2009	25,703,366	7,527,047	292,853	385,617,142	(134,498,602)	30,162,230	314,804,036

CASH FLOW STATEMENT

For the year ended 31 January 2009

	2009 £	2009 £	2008 £
Net cash outflow from operating activities		27,864,495	33,677,949
Returns on investment and servicing of finance			
Interest paid	(9,586,923)		(9,553,292)
Dividends on Cumulative Preference Stock	(42,997)		(42,997)
Net cash outflow from investment and servicing of finance		(9,629,920)	(9,596,289)
Capital expenditure and financial investment			
Purchases of fixed asset investments	(152,890,966)		(188,448,230)
Sales of fixed asset investments	165,738,174		189,710,648
Net cash inflow from capital expenditure and financial investment		12,847,208	1,262,418
Dividends paid on Ordinary Shares		(22,516,148)	(21,757,822)
Net cash inflow before financing		8,565,635	3,586,256
Financing			
Purchase of Ordinary Shares for cancellation		-	(4,643,972)
Increase (Decrease) in cash		8,565,635	(1,057,716)

Notes

Note A

The financial statements have been prepared on the historical cost convention, modified to include the revaluation of investments, and in accordance with the United Kingdom law, United Kingdom Generally Accepted Accounting Practice (UK GAAP) and the Statement of Recommended Practice – 'Financial Statements of Investment Trust Companies' (SORP) issued in December 2005 by the Association of Investment Companies (AIC) (formerly the Association of Investment Trust Companies).

Note B

The Returns per Ordinary Share have been calculated using a weighted average number of shares in issue of 102,813,464 (2008 – 103,451,633 shares).

Note C

The total return column of this statement is the profit and loss account of the Company. The supplementary revenue return and capital return columns are both prepared under the guidance published by the Association of Investment Companies.

All revenue and capital items derive from continuing operations. No operations were acquired or discontinued in the year.

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.

Note D

Valuation – As the Company's business is investing in financial assets with a view to profiting from their total return in the form of increases in fair value, financial assets are designated as fair value through profit or loss on initial recognition in accordance with FRS 26 'Financial Instruments: Recognition and Measurement'. The Company manages and evaluates the performance of these investments on a fair value basis in accordance with its investment strategy, and information about the investments is provided on this basis to the Board of Directors.

Investments held at fair value through profit or loss are initially recognised at fair value. After initial recognition, these continue to be measured at fair value, which for quoted investments is either the bid price of the last traded price depending on the convention of the exchange on which the investment is listed.

Unlisted investments are valued by the Directors based upon latest dealing prices, stockbrokers' valuations, net asset values, earnings and other known accounting information in accordance with the principles set out by the British Venture Capital and Private Equity Association Valuation Guidelines issued in March 2005.

The unrealised Capital Reserve reflects differences between fair value and book cost. Net gains or losses arising on disposal of investments are recognised in the capital column of the Income Statement and are taken to the realised Capital Reserve.

Included in the cost of investments are transaction costs and stamp duty on purchases which amounted to £878,184 (2008 – £1,176,671). Transaction costs on sales amounted to £221,763 (2008 – £291,295).

Note E

	2009	2008
	£	£
Dividends paid on Ordinary Shares:		
Third interim dividend 5.4p paid 13 February 2008 (2007 – 5.1p)	5,551,927	5,291,754
Final dividend 5.4p paid 14 May 2008 (2007 – 5.1p)	5,551,927	5,291,754
First interim dividend 5.5p paid 19 August 2008 (2007 – 5.4p)	5,654,740	5,596,931
Second interim dividend 5.6p paid 13 November 2008 (2007 – 5.4p)	<u>5,757,554</u>	<u>5,577,383</u>
	22,516,148	21,757,822

Dividends payable at the year end are not recognised as a liability under FRS 21 'Events After Balance Sheet Date' (see Annual Financial Report – Statement of Accounting Policies). Details of these dividends are set out below.

	2009	2008
	£	£
Dividends paid or payable on Ordinary Shares:		
Third interim dividend 5.6p paid 20 February 2009 (2008 – 5.4p)	5,757,554	5,551,927
Special dividend 0.5p payable 15 May 2009 (2008 – nil)	514,067	-
Final proposed dividend – 5.6p payable 15 May 2009 (2008 – 5.4p)	<u>5,757,554</u>	<u>5,551,927</u>
	12,029,175	11,103,854

The special dividend and the proposed final dividend accrued are based on the number of shares in issue at the year end. However, the dividends payable will be based on the numbers of shares in issue on the record date and will reflect any purchases and cancellations of shares by the Company settled subsequent to the year end.

Note F

The financial information for the year ended 31 January 2009 has been extracted from the Audited Annual Financial Report for that year. The auditor's report on this report was unqualified and did not contain a statement under either Section 237(2) or Section 237(3) of the Companies Act 1985. The Annual Financial Report has not yet been delivered to the Registrar of Companies.