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The Merchants Trust PLC

Annual Financial Report for the year ended 31 January 2009

www.merchantstrust.co.uk

Contents

The Merchants Trust

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

Investment Policy

Investment Objective

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.

Benchmark

The Company'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, reflecting the emphasis within the portfolio, as well as the FTSE 350 Higher Yield Index, reflecting the Company's higher yield objective.

Gearing

The Company's policy is to remain substantially fully invested.

The Company has the facility to gear – borrow money – with the objective of enhancing future returns. Historically, gearing has been in the form of long-term, fixed-rate debentures. The Board monitors the level of gearing and makes decisions on appropriate action based on the advice of the Manager and the future prospects of the Company's portfolio.

The Company's authorised borrowing powers set out in the Articles of Association state that the Company's borrowings may not exceed its called up share capital and reserves. In normal market conditions, it is unlikely that gearing (borrowings as a percentage of net assets) will exceed 35%.

Risk Diversification

The Company will aim to achieve a spread of investments, with no single investment representing more than 15% of assets. The Company will seek to diversify its portfolio into at least five industrial sectors, with no one sector comprising more than 35% of the portfolio.

Financial Summary

	For the year ended 31 January 2009	For the year ended 31 January 2008	% change
Revenue	£31,729,754	£28,495,032	+11.4
Net return attributable to Ordinary Shareholders†	£28,017,898	£23,649,820	+18.5
Net return attributable to Ordinary Shareholders#	£26,211,995	£23,649,820	+10.8
Earnings per Ordinary Share	27.25p	22.86p	+19.2
Ordinary dividends per Ordinary Share	22.30p	21.60p	+3.2
Special dividend per Ordinary Share	0.5p	–	n/a
Assets	**2009**	**2008**	**% change**
Total Assets*	£428,277,126	£619,601,004	-30.9
Net Assets	£314,804,036	£506,187,213	-37.8
Net Asset Value per Ordinary Share	306.2p	492.3p	-37.8
Ordinary Share Price	282.0p	425.0p	-33.6
Discount of Ordinary Share Price to Net Asset Value	7.9%	13.7%	n/a
(Premium) Discount (Debt at market value)	(1.3%)	9.4%	n/a
FTSE 100 Index (Capital Return)	4,149.6	5,879.8	-29.4
FTSE 350 Higher Yield Index (Capital Return)	2,434.0	3,475.0	-30.0

Notes

† Including a refund of VAT paid on management fees and associated interest income.

Excluding refund of VAT paid on management fees and associated interest income.

* Net of current liabilities.

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, starting on page 6.

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 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 an above average level of income and income growth with long term growth of capital through a policy of investing mainly in higher yielding UK FTSE 100 companies. 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.

Chairman's Statement

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.

Hugh Stevenson | Chairman
6 April 2009

Historical Record

Revenue and Capital for years ended 31 January

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Revenue (£'000s)	22,590	21,546	21,596	22,101	22,247	22,675	24,714	27,750	28,495	31,730
Earnings per Ordinary Share	17.93p	16.35p	16.70p	17.26p	17.34p	17.58p	19.44p	22.17p	22.86p	27.25p
Dividends per Share	16.00p	16.40p	16.80p	17.20p	17.60p	18.00p	18.90p	20.00p	21.60p	22.80p
Ordinary Dividend per Share	16.00p	16.40p	16.80p	17.20p	17.60p	18.00p	18.90p	20.00p	21.60p	22.30p
Special Dividend per Share	–	–	–	–	–	–	–	–	–	0.50p
Tax Credit per Share	1.78p	1.82p	1.87p	1.91p	1.96p	2.00p	2.10p	2.22p	2.40p	2.53p
Gross Dividend per Share	17.78p	18.22p	18.67p	19.11p	19.56p	20.00p	21.00p	22.22p	24.00p	25.33p
Total Net Assets attributable to Ordinary Capital (£'000s)	390,317	473,729	420,983	273,407	357,442	424,511▲	514,713	588,835	506,187	314,804
Net Asset Value per Ordinary Share	381.4p	463.5p	412.3p	267.8p	350.1p	415.8p▲	504.1p	567.5p	492.3p	306.2p
NAV Total Return (%)*	-4.3	+25.8	-7.4	-30.9	+37.3	+20.8▲	+25.6	+16.4	-9.6	-33.2
Retail Price Index Increases (%)**	+2.1	+1.8	+2.6	+2.7	+2.4	+2.1	+2.3	+4.2	+4.1	+0.1

Notes

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

** RPIX – excludes the effect of mortgage rates.

▲ Restated in accordance with Financial Reporting Standards 25 'Financial Instruments: Disclosure and Presentation' and 26 'Financial Instruments: Recognition and Measurement'. Years prior to 2005 have not been restated.

Illustrative Performance Attribution Analysis for the year ended 31 January 2009

	FTSE 100 Index %	FTSE 350 Higher Yield Index %
Capital return of index	(29.4)	(30.0)
Relative return from portfolio	(1.8)	(1.2)
Capital return of portfolio	**(31.2)**	**(31.2)**
Impact of gearing on portfolio	(7.6)	(7.6)
Retained revenue	1.1	1.1
Expenses charged to capital	(1.4)	(1.4)
Other	1.3	1.3
Change in Net Asset Value per Ordinary Share	**(37.8)**	**(37.8)**

Investment Manager's Review

Economic Background

We have witnessed the sharpest economic downturn in decades. Although a year ago an uncertain economic and credit outlook gave us reason for caution, the impact of the credit crunch on economic activity was far more severe than we expected or even contemplated. Whilst it had looked as if the USA was entering a recession it was unclear whether that would spread to the UK or Europe and emerging markets were expected to remain robust.

As the year progressed, global growth expectations were reduced materially with all of the major G7 economies entering recessions. Talk of emerging markets "decoupling" from the West proved to be fanciful with Chinese growth slowing sharply as exports collapsed and many smaller emerging markets suffering sharp contractions.

The credit crunch essentially stemmed from a downward spiral of falling asset prices causing banks to write down the value of their capital, threatening their solvency and forcing them to restrict lending. In turn, this resulted in fewer buyers and many forced sellers of assets and once again to falling asset values. Almost all risk asset classes were affected; mortgages, credit, property, equities and commodities. Perhaps the defining moment of the crisis was the bankruptcy of Lehman Brothers on September 17. As unsecured creditors lost money in a bank, shockwaves travelled through the system and made banks extremely wary of lending to each other, exacerbating the already tight liquidity situation. In short order we then saw the rescue of the large US insurer AIG, emergency funding for Royal Bank of Scotland to prevent a run on the bank and the orchestrated takeover of HBOS by Lloyds TSB.

The shortage of credit and a related sharp drop in confidence led to a collapse in demand for most goods and services in the second half of the year, exacerbated by destocking of the global supply chain. Many factories literally ground to a halt and unemployment started to rise.

Governments and central banks responded to the unfolding crisis in different ways. In the USA, where the problems were visible much earlier, interest rates were cut aggressively with progressively larger stimulus packages announced. In the UK and Europe, inflationary pressures early in the period delayed significant policy action with the ECB actually raising interest rates in July. As inflationary pressures subsided, interest rates were reduced later in the period and fiscal policy responses followed. UK interest rates fell from 5.5% to 1.5% over the year. Asian countries also responded with Japan cutting already low rates to virtually zero and the Chinese complementing monetary policy with a massive stimulus package to create and protect jobs.

Market Trends

World stock markets fell heavily between May and October with the FTSE 100 index posting a total return for the year of -26.0%. The FTSE 350 Higher Yield Index delivered a similar total return of -25.3%. Volatility increased as the market fell and hit record levels in November. Government bonds performed well as interest rates came down and investors sought safe assets but corporate bond spreads widened materially reflecting increased anxiety about credit risk. Another major feature was in the currency markets where the pound fell heavily in the second half of the year, particularly against the dollar, dropping 27% from $1.99 to $1.45 over 12 months. Commodity markets had a buoyant start to the year on hopes for Asian "decoupling" but collapsed in the summer. The oil price rose from around $90 to over $140 in July before falling back to below $50 in November.

Performance within the stock market was increasingly polarised. On the one hand were companies perceived to be relatively well placed, with strong balance sheets and less exposure to slowing economic activity. On the other hand were those perceived to be at higher risk, either from cyclical challenges to their profitability or from having too much debt in a credit constrained environment. Further differentiation came from exposure to foreign currencies with the weakness of the pound providing a major boost to companies with overseas operations although also increasing the Sterling value of foreign debt.

At the sector level the worst performers were banks, general financials, real estate and mining all down around 60% despite a sharp rally in mining shares in the first few months. Life assurance and fixed line telecommunications were both down around 45% although the latter was due to company specific problems at BT. Few sectors delivered positive total returns although pharmaceuticals was up 16% and tobacco and non-life insurance were just above breakeven. Other relatively robust sectors included oil & gas, utilities, food and beverages which all fell less than 10%. At the individual stock level there was even wider dispersion with 10 of the starting FTSE 100 stocks losing 75% of their value and 32 more than halving but only 5 rising by more than 10%.

Investment Performance

After a volatile year, the portfolio's total return ended marginally below the FTSE 100 benchmark, with a significant improvement in the second half. The table below shows the top 10 individual contributions to the relative return. Stocks from two sectors dominate the list; mining and banks.

Investment Manager's Review

Contribution to Investment Performance relative to FTSE 100 Index			
Positive Contributions	**%**	**Negative Contributions**	**%**
Xstrata*	1.2	HBOS	-2.8
Rio Tinto	1.1	Bradford & Bingley	-1.6
Lloyds TSB	1.0	BT	-0.7
GlaxoSmithKline	0.9	Inchcape	-0.6
Royal Bank of Scotland	0.6	Aviva	-0.4
BAE Systems	0.5	GKN	-0.4
FKI	0.4	AstraZeneca	-0.4
HSBC	0.4	Man Group	-0.4
Centrica	0.3	Reckitt Benckiser*	-0.4
Brit Insurance	0.3	BG*	-0.4

* Positive and negative contributions can arise from under and outperformance of companies not owned.

We maintained a relatively low exposure to the mining sector. As the sector rallied in the first half of the year this held back performance. However the sharp sell-off in the second half brought down the index leaving Xstrata (not owned) and Rio Tinto (sold during the period) as the two largest positive performance contributors.

The banks sector was in marked contrast. We started the year with a large position in the mortgage banks HBOS and Bradford & Bingley in particular. These were extremely disappointing performers, as discussed below, and made the biggest negative contributions to performance. In the second half of the year the banks sector made a small positive contribution as the underweight positions in Lloyds TSB, HSBC and the sale of Royal Bank of Scotland all made significant positive impacts.

Other positive factors were the large positions in GlaxoSmithKline, BAE Systems and Centrica which held their value well in a weak market, the takeover of FKI, and a re-rating of Brit Insurance. On the negative side BT suffered profit warnings in their Global Services division, GKN and Inchcape were impacted by the sharp slowdown in the global automotive markets and Aviva and Man Group were weak in a generally poor environment for financial stocks. The three remaining negative contributors were stocks that performed relatively well but where the portfolio had no exposure or held less than the index weighting, namely; BG, Reckitt Benckiser and AstraZeneca.

Portfolio Changes

It has been a challenging period to manage an investment portfolio, especially with a high income requirement. We have aimed at all times to maintain a long term perspective when making investment decisions but to be responsive to significant corporate developments and to take advantage of market volatility and opportunities.

Just as the market has polarised between relatively solid businesses and those perceived to be at greater risk, it is possible to think of the portfolio in these two broad groupings. We have maintained a high exposure to the former, with significant stakes in many large, financially strong and globally diversified businesses in less cyclical industries. These companies typically pay healthy and growing dividends. We have also managed the exposure to the higher risk group, carefully reassessing existing holdings and seeking opportunities to buy excellent businesses at good prices.

The table below shows the largest ten net purchases and net sales.

Largest Net Purchases	**£m**	**Largest Net Sales**	**£m**
HBOS	14.9	HSBC	21.6
BHP Billiton	14.6	Rio Tinto	10.8
Man Group	12.4	GlaxoSmithKline	10.7
AstraZeneca	11.6	BP	10.4
Unilever	9.3	Lonmin	10.3
BT	8.9	Rexam	7.5
Inchcape	6.1	Smiths Group	6.5
BAE Systems	5.0	Anglo American	4.9
Arriva	3.4	Close Brothers	4.7
Legal & General	3.2	Lloyds Banking	4.0

Investment Manager's Review

Early in the year we responded to the deteriorating economic outlook by positioning the portfolio more defensively. We sold Lloyds TSB and reduced HSBC. We also sold the remaining positions in DIY retailer Kingfisher and real estate company Segro and reduced the position in the paving and landscaping company Marshalls. We introduced new holdings in the pharmaceutical company AstraZeneca and the food and household products manufacturer Unilever which both have relatively resilient, global businesses. We also added to existing stakes in defence company BAE Systems, utilities Centrica, Scottish & Southern Energy and National Grid and food and beverages stocks Dairy Crest and Britvic.

Amongst the perceived "higher risk" companies, one theme we sought to exploit was to buy "cyclical survivors". These are companies operating in cyclical industries but with strong balance sheets and leading market positions that should survive even a protracted downturn and emerge with an enhanced competitive position. Most of these high yielding shares were trading at depressed valuations reflecting cyclical risks but providing an opportunity for investors with a longer time horizon. We bought four companies with net cash on their balance sheet: Home Retail Group, the owner of Argos and Homebase, should now benefit from the closure of some weaker competitors such as Woolworths and MFI. Man Group, one of the largest hedge fund managers stands to gain over time from a consolidation to the largest players in the industry. Balfour Beatty, a leading construction company, is predominantly exposed to public sector and infrastructure investment in the UK and USA and should gain from increasing investment in areas like public transport and utilities. Finally IG Group is the market leader in spread-betting and is virtually creating the market as it rolls out its successful model to European and other countries.

We also purchased two companies in the "higher risk" area carrying some debt but trading on extremely low valuations. We bought a small position in Informa, a broadly based media business, which has many high quality franchises in areas such as scientific publications and exhibitions. Debt levels concerned the market but we believed the financial ratios were acceptable. We also purchased Inchcape, the global car distributor and retailer with exclusive contracts to distribute Toyota cars in Hong Kong and Singapore amongst other franchises. We believed it was extremely cheap as its geographic diversity had previously helped it weather regional downturns. However we did not anticipate the unprecedented global collapse in car sales.

Another new addition was Arriva, the bus and rail company with operations in the UK and continental Europe. There is a secular trend to greater use of public transport reflecting increasing traffic congestion and environmental policy. Arriva benefits from this trend and has less exposure than most of its peers to the UK rail business which is vulnerable to any rise in unemployment. Other top 10 purchases included adding to existing positions in BT and Legal & General on the view that the depressed share prices more than compensated for the issues in each business.

The banks sector warrants special comment as conditions have been exceptional. In addition to the sales of HSBC and Lloyds referred to above, we made a number of switches in the first few months; selling out of Alliance & Leicester and building up the position in HBOS and to a lesser extent Barclays. We also backed the HBOS rights issue.

Initially we believed that the domestic mortgage banks, such as HBOS and Bradford & Bingley would be able to raise mortgage pricing to offset the increasing bad debts in a slowing, but non-recessionary economy. We also believed they would be less affected by tough investment banking markets as they had limited trading exposure in that area. Their valuations looked very attractive in most likely scenarios. However the severe credit crunch substantially raised the cost of funding, negating any re-pricing benefits and their balance sheets were severely damaged by write-offs of investments in troubled assets. As the economic downturn deepened beyond our initial expectations it became clearer that increasing bad debts and the liquidity drought would be too severe for the companies to survive independently. We sold Bradford & Bingley in the summer and HBOS was eventually taken over to form the new Lloyds Banking Group.

On a more positive note, HSBC shares continued to perform well relative to the market until October as they were perceived to be a safe haven. We sold down the Trust's position into strength and we made further sales as there was a risk that the dividend might prove unsustainable, making HSBC the largest sale in the year. We also sold Royal Bank of Scotland in January with concerns over the outlook for the bank under majority government ownership and with little prospect of a dividend in the near term.

We carried out several transactions in an extremely volatile mining sector. Early in the year, with worries over the outlook for South Africa, we reduced exposure to the platinum producers Lonmin and Anglo American, and reinvested in BHP Billiton, a more diversified oil and mining company. As commodity prices and mining shares boomed over the summer we made significant sales, taking profits in Rio Tinto and Anglo American and selling the rest of Lonmin. In October we were concerned that fragile debt markets might derail the BHP Billiton bid for Rio Tinto; we therefore sold the remaining Rio holding, partially reinvesting in BHP.

Turning to the major disposals from the portfolio, FKI was taken over by Melrose. We decided to retain Melrose shares as their strong management team should be able to unlock significant value from restructuring the business over time. Resolution also attracted a takeover and was sold. We sold the financial conglomerate Close Brothers, life insurer Friends Provident and house-builder Persimmon on concerns that the

Investment Manager's Review

deteriorating outlook for their businesses was not fully reflected in share prices. Finally Smiths Group was sold after strong performance fully valued the shares.

Other top ten sales included reducing the large positions in GlaxoSmithKline and BP. Their perceived resilience, strong balance sheets and exposure to a rising dollar led them to materially outperform the broader market. We also partially sold Rexam, the beverage can and plastic packaging manufacturer which performed well and moved closer to our assessment of fair value.

Future Policy

It is no exaggeration to say that the challenges facing economies are unprecedented in a generation. Too many people, companies and governments have been relying on too much cheap debt to finance spending beyond their means and the economy needs to adjust through a potentially prolonged period of low growth or contraction as debt is paid down. Authorities are desperate to avoid a Japan-like extended period of deflation or even a depression and they have brought in policies to try to smooth out this adjustment process. They have cut interest rates aggressively and are pursuing aggressive monetary and fiscal stimuli to return economies to growth. This is a fine balancing act with the risk of deflation on one side and currency devaluation and inflation on the other.

Our central view is that the worst of the possible outcomes will be avoided but we are set for a slow recovery from recession and a prolonged period of economic growth below the long term trend. High inflation seems less of a risk than a prolonged recession but the threat cannot be ignored.

The economic background presents a real challenge for companies and progress in most risk assets, including equities, is likely to depend upon an easing of the credit crunch. Many cyclical and financial companies are in survival mode and are taking action to rebuild balance sheets via rights issues and dividend cuts. However it is not all bad news as many of the larger FTSE 100 companies are in sectors like pharmaceuticals, utilities, food retailers, food, beverage and tobacco producers and telecommunications. These businesses typically have sound finances and solid cash flows and can increase their dividends. The weakness of Sterling is also providing a welcome boost to many of the UK's largest companies which have significant overseas exposure.

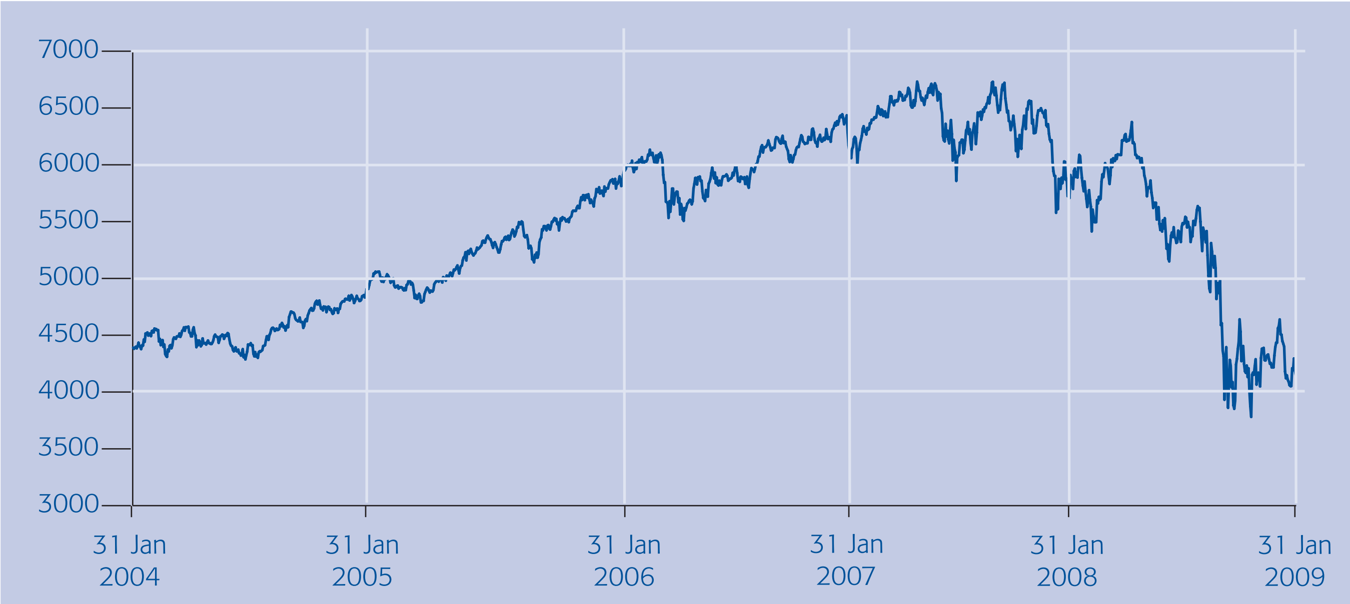
It is often darkest before dawn and the stock market reflects a pessimistic outlook with share valuations either cheap or extremely cheap on most long term measures. The Trust's portfolio continues to have a bias to well financed, multinational companies with strong cashflows. We are however seeing attractive opportunities to buy strong companies that may carry cyclical risks but offer compelling long term value and a reasonable dividend yield.

Dividends

The Merchants Trust has a twenty seven year record of consistently raising its dividend and the portfolio is managed with a view to continuing to generate a high level of income. Clearly a number of companies have cut their payouts in recent months, most notably in the banking sector, and there are likely to be more dividend cuts as the year progresses. However many of the largest holdings in the portfolio are delivering good dividend growth, boosted in particular by the strength of the dollar. Our investment style typically involves reducing positions in companies that perform well and reinvesting in cheaper alternatives. This tends to enhance income over time. We also have the potential to reposition the portfolio to reduce the potential impact of specific dividend cuts as, for example, we did by reducing the HSBC exposure last year. The biggest risks to the income generation of the portfolio relate to the depth and duration of the recession which will drive corporate profitability, the level of the market and other financial assets which can affect pension fund deficits and financial solvency, the level of sterling particularly against the US dollar and commodity prices, notably oil, which will impact cashflows at the big oil companies.

Investment Manager's Review

FTSE 100 Price Index from 31 January 2004 to 31 January 2009



Souce: RCM/Datastream

Listed Holdings at 31 January 2009

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**	

Distribution of Total Assets

Total Assets (less creditors falling due within one year) £428,277,126 (2008 – £619,601,004).

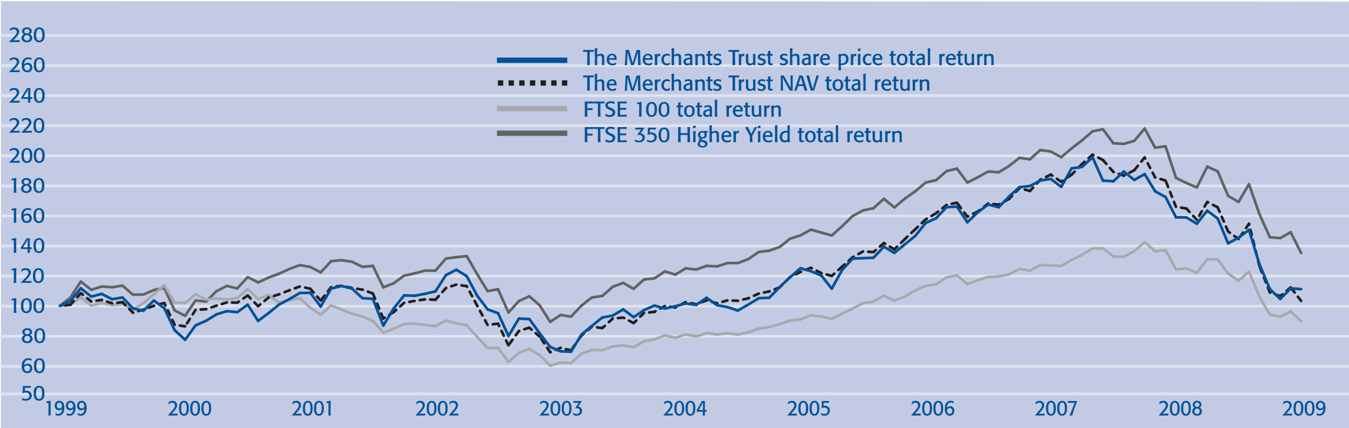
	Percentage of total assets at 31 January 2009	Percentage of total assets at 31 January 2008
Oil & Gas		
Oil & Gas Producers	18.8	15.1
	18.8	**15.1**
Basic Materials		
Mining	4.7	7.5
	4.7	**7.5**
Industrials		
Aerospace & Defence	5.2	3.7
Construction & Materials	0.7	0.8
General Industrials	0.9	3.0
Industrial Engineering	0.6	0.6
Support Services	0.5	0.5
	7.9	**8.6**
Consumer Goods		
Automobiles & Parts	0.5	1.1
Beverages	2.5	2.1
Food Producers	2.6	0.7
Household Goods	–	0.7
Tobacco	3.5	2.3
	9.1	**6.9**
Healthcare		
Pharmaceuticals & Biotechnology	12.6	8.0
	12.6	**8.0**
Consumer Services		
General Retailers	2.2	1.7
Media	3.2	2.6
Travel & Leisure	1.9	1.4
	7.3	**5.7**
Telecommunications		
Fixed Line Telecommunications	2.9	2.6
Mobile Telecommunications	9.0	7.9
	11.9	**10.5**
Utilities		
Electricity	4.0	2.9
Gas, Water & Multiutilities	6.3	4.7
	10.3	**7.6**
Financials		
Banks	5.3	19.4
General Financial	2.2	1.3
Life Insurance	3.6	5.3
Non-Life Insurance	1.3	0.9
Real Estate	–	0.6
	12.4	**27.5**

Distribution of Total Assets

	Percentage of total assets at 31 January 2009	Percentage of total assets at 31 January 2008
Information Technology		
Software & Computer Services	1.2	0.8
	1.2	0.8
Total Listed Investments	96.2	98.2
Net Current Assets	3.8	1.8
Total Assets	100.0	100.0

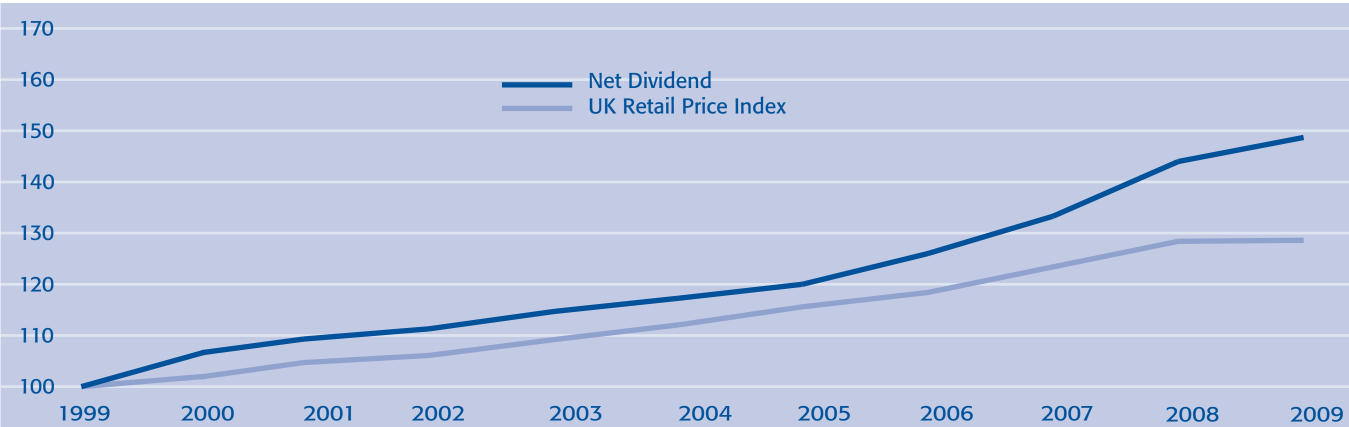
Performance Graphs 10 year record as at 31 January

The Merchants Trust 10 Year Cumulative Return compared to key UK equity indices



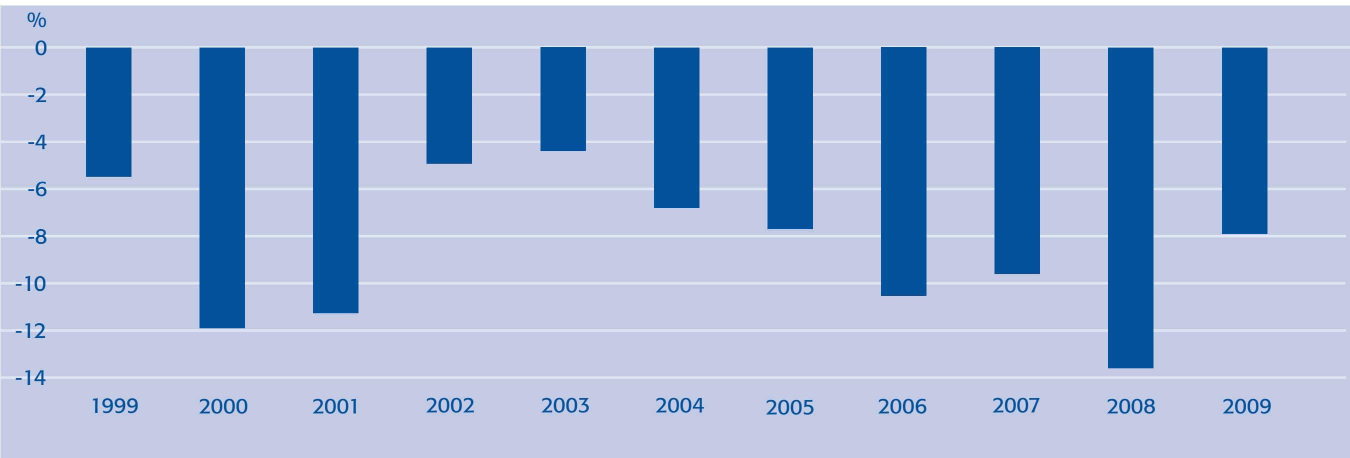
Source: Mellon
(Re-based to 100)

The Merchants Trust Net Dividend Growth compared to inflation



Source: RCM Datastream
(Re-based to 100)

The Merchants Trust Discount to Net Asset Value



Directors

The current Directors' details are set out below. All Directors are non-executive and independent of the Manager.

Mr H. A. Stevenson (Chairman)
(Born September 1942) joined the Board in September 1999. Formerly Chairman of Mercury Asset Management Group plc, he is Chairman of Equitas Limited and Deputy Chairman of the Financial Services Authority.

Mr R. A. Barfield
(Born April 1947) joined the Board in May 1999. Formerly Chief Investment Manager of Standard Life Assurance Company, he is a Chairman of The Baillie Gifford Japan Trust PLC and a Director of JPMorgan Fleming Overseas Investment Trust PLC, The Edinburgh Investment Trust PLC and Standard Life Investments Property Income Trust Limited. He is a member of The Professional Oversight Board and advises a number of pension funds.

Mr M. J. E. McKeon
(Born October 1956) joined the Board in May 2008. He is Group Finance Director of Severn Trent plc and prior to that, from 2000 until 2005, he was Group Finance Director of Novar plc. He held various senior roles at Rolls-Royce plc from 1997 to 2000. He has extensive experience in a number of overseas positions, having worked at CarnaudMetalbox, Elf Atochem and PricewaterhouseCoopers. He is a Chartered Accountant.

Sir James Sassoon (Chairman of the Audit Committee)
(Born September 1955) joined the Board in July 2006. He is a Director of Nuclear Liabilities Fund Limited and a member of the Economic Recovery Committee of the Shadow Cabinet. He was formerly President of the Financial Action Task Force, Managing Director, Finance and Industry at HM Treasury and Vice Chairman, Investment Banking, at UBS Warburg. He is a Chartered Accountant.

Mr P. J. Scott Plummer (Senior Independent Director)
(Born August 1943) joined the Board in May 1997. He is a Director of Buccleuch Estates Limited. He was until November 2005 Chairman of Martin Currie Limited, and was formerly a Director of Martin Currie Portfolio Investment Trust PLC and Candover Investments PLC. He is a Chartered Accountant.

Mr H. E. Staunton
(Born May 1948) joined the Board in May 2008. He is a non-executive director of Ladbrokes plc, Legal & General plc and Standard Bank Plc. He was previously Finance Director at ITV plc and Granada Group plc. He was also a non-executive director of Emap plc, BSkyB, Independent Television News Limited, Vector Hospitality plc and Ashtead Group plc, of which he was also Chairman between 2001 and 2004. He is a Chartered Accountant.

Directors' Report

The Directors present the annual financial report of the Company and give their report for the year ended 31 January 2009.

Business Review

Business and Status of the Company

The Company is an investment company as defined in Section 266 of the Companies Act 1985.

The Company carries on business as an investment trust and was approved by HM Revenue & Customs as an investment trust in accordance with Section 842 of the Income and Corporation Taxes Act 1988 for the year ended 31 January 2008. In the opinion of the Directors, the Company has subsequently conducted its affairs so that it should continue to qualify. The Company will continue to seek approval under Section 842 of the Income and Corporation Taxes Act 1988 each year. The Company is not a close company for taxation purposes.

Regulatory Environment

The Company is listed on the London Stock Exchange and is subject to UK company law, financial reporting standards, listing rules, tax law and its own Articles of Association. In addition to annual and half yearly financial reports published under these rules, the Company announces net asset values per share on a daily basis for the information of investors. It provides more detailed information on a monthly basis to the Association of Investment Companies, of which the Company is a member, in order for brokers and investors to compare its performance with its peer group. The Board of Directors is charged with ensuring that the Company complies with its own objectives as well as these rules. The Board has appointed RCM (UK) Limited to carry out investment management, accounting, secretarial and administration services on behalf of the Company. The Company has no employees or premises of its own.

Investment Objective and Policies

The Company's objective is 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 Company'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, reflecting the emphasis within the portfolio, as well as the FTSE 350 Higher Yield Index, reflecting the Company's higher yield objective.

The Company pays quarterly dividends and the Board has a policy of making these progressive from year to year, in keeping with the Company's stated objective to provide an above average level of income and income growth. The dividend has increased every year for the past twenty seven years and details of historic dividend payments are set out on page 5.

Performance

In the year to 31 January 2009 the NAV per Share fell by 37.8%. This compares with the capital return on the Company's benchmark indices of -29.4% (FTSE 100) and -30% (FTSE 350 Higher Yield). At 31 January 2009 the value of the Company's investment portfolio was £411.8m. The Investment Manager's review on pages 6 to 10 includes a review of developments during the year as well as information on investment activity within the Company's portfolio.

Key Performance Indicators ("KPIs")

The Board uses certain financial KPIs to monitor and assess the performance of the Company. The principal KPIs are:

- *Performance against the benchmark indices*
  The Company's performance is benchmarked against the FTSE 100 Index and the FTSE 350 Higher Yield Index. These are the most important KPIs by which performance is judged.

- *Performance against the Company's peers*
  The Board also monitors the Company's performance with reference to its investment trust peer group.

- *Performance Attribution*
  The performance attribution is considered at each Board Meeting and enables the Directors to judge how the Company achieved its performance relative to the benchmark index and to see the impact on the Company's relative performance of factors including stock and sector allocation. A Performance Attribution Analysis for the year ended 31 January 2009 is given on page 5.

Directors' Report

- *Discount to net asset value ("NAV")*
  The Board has a share buy back programme which has a role to play in enhancing the NAV for existing shareholders, as shares are bought back at a discount, and in minimising the volatility of movements in the discount. In the year to 31 January 2009 the shares traded between a discount of -9% and a premium of 17% with debt at fair value.

- *Total expense ratio ("TER")*
  The most significant expense for the Company is the cost of the management fee and the costs of interest on the Company's borrowings. Other expenses include the costs of investment transactions, directors' fees and insurance, professional advice and regulatory fees and the costs of production of the reports to shareholders. The TER is calculated by dividing operating expenses, that is, the Company's management fee and all other operating expenses (including tax relief where allowable, but excluding interest payments and investment management fee VAT refund) as a percentage of total assets less current liabilities at the year end. The TER for the year ended 31 January 2009 was 0.58% (2008 – 0.50%).

Revenue
The return attributable to Ordinary Shareholders for the year amounted to £28,017,898 (2008 – £23,649,820).

Earnings per ordinary dividend amounted to 27.25p. The first and second interim dividends of 5.5p and 5.6p respectively have been paid during the year. Since the year end the third interim dividend of 5.6p has been paid. The special dividend of 0.5p and the final proposed dividend of 5.6p are both payable on 15 May 2009. In accordance with FRS 21 'Events after the Balance Sheet Date', the third dividend, the special dividend and final dividend are not recognised as liabilities within the financial statements on the basis that they have not been paid and approved, respectively, by the shareholders.

Historical Record
The distribution of total assets is shown on pages 12 and 13, and the historical record of the Company's revenue, capital and invested funds over the past ten years is shown on page 4. Graphs appear on page 14 showing the performance on a total return basis over the past ten years of the Net Asset Value of the Company's Ordinary Shares against the Company's benchmark indices, the growth in net ordinary distributions made by the Company against the Retail Price Index, and the Company's discount to Net Asset Value over the same period.

Invested Funds
Sales of investments during the year resulted in net losses based on historical costs of £38,449,932 (2008 – £34,315,606 gains). Provisions contained in the Finance Act 1980 exempt approved Investment Trusts from corporation tax on their chargeable gains. Invested funds at 31 January 2009 had a value of £411,795,591 (2008 – £608,450,967) before deducting net liabilities of £96,991,555 (2008 – £102,263,754).

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 under-performance 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"), and details are given above under the heading 'Business of the Company'. 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

Directors' Report

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 on page 23 to 27.

- 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 on pages 25 to 27.

- 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 on pages 46 to 50.

Future Development

The future development of the Company is dependent on the success of the Company's investment strategy against the economic environment and market developments. The investment manager discusses his view of the outlook for the Company's portfolio in his report beginning on page 6.

Going Concern

The Directors have considered the Company's investment objective and capital structure and, having noted that the portfolio consists mainly of securities which are readily realisable, have concluded that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

Net Asset Value

The Net Asset Value of the Ordinary Shares of 25p at the year end was 306.2p as compared with a value of 492.3p at 31 January 2008.

Share Capital

Details of the Company's share capital are set out in Note 11 on page 43.

Payment Policy

It is the Company's payment policy for the forthcoming financial year to obtain the best terms for all business and therefore there is no consistent policy as to the terms used. In general, the Company agrees with its suppliers the terms on which business will take place and it is our policy to abide by these terms. The Company had no trade creditors at the year end (2008 – £nil).

Donations and Subscriptions

There were no charitable donations and subscriptions in respect of the year (2008 – £nil). No political donations were made during the year.

Final Dividend

Subject to the final dividend being approved by shareholders at the Annual General Meeting, payment will be made on 15 May 2009 to shareholders on the Register of Members at the close of business on 17 April 2009 at the rate of 5.6p per Ordinary Share. Further details are provided in Note 6 on page 40.

Section 992 of the Companies Act 2006

The following information is disclosed in accordance with Section 992 of the Companies Act 2006.

Capital Structure

The Company's capital structure is summarised on page 43.

Directors' Report

Voting Rights in the Company's Shares

The voting rights at 31 March 2009 were:

Share class	Number of shares issued	Voting rights per share	Total Voting Rights
Ordinary shares of 25p	102,813,464	1	102,813,464
3.65% Cumulative Preference shares of £1	1,178,000	1	1,178,000
Total	**103,991,464**		**103,991,464**

These figures remained unchanged at the date of this report.

Interests in the Company's Share Capital

As at 3 April 2009 the following had declared a notifiable interest in the Company's issued share capital:

Ordinary Shares:

Name	Number of Shares	Percentage of Voting Rights
Rensburg Sheppards Investment Management Group Limited	4,524,860	4.4%
AXA S.A.	4,386,823	4.3%
Legal & General Group PLC	4,099,823	4.0%
Lloyds Banking Group PLC	4,086,614	4.0%

3.65% Cumulative Preference Stock:

Name	Number of Shares	Percentage of Voting Rights
P. S. & J. M. Allen	185,582	15.8%
Prudential plc	176,000	14.9%
Ecclesiastical Insurance Office plc	134,690	11.4%
F&C Asset Management plc	60,000	5.1%
D. J. Edwards	50,000	4.2%
J. Y. Miller	36,000	3.0%

The rules concerning the appointment and replacement of directors, amendment of the Articles of Association and powers to issue or buy back the Company's shares are contained in the Articles of Association of the Company and the Companies Acts 1985 and 2006.

There are no restrictions concerning the transfer of securities in the Company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; no agreements which the Company is party to that might affect its control following a takeover bid; and no agreements between the Company and its directors concerning compensation for loss of office.

Directors and Management

All Directors listed below served throughout the financial year under review.

The Directors retiring by rotation at the Annual General Meeting are Hugh Stevenson and Dick Barfield. Mr Stevenson and Mr Barfield each offers himself for re-election and both have the full support of the Board in doing so. The Board confirms that, since the year end, the performances of Mr Stevenson and Mr Barfield have been subject to a formal evaluation and that each continues to be effective and committed to his role. The Board considers Mr Stevenson and Mr Barfield to be independent, notwithstanding their length of service, and continues to be of the view that their extensive experience and active knowledge of industry and financial services are of great benefit to the Board.

Biographical details of the current Directors are on page 15.

Directors' Report

The current Directors and their beneficial interests in the share capital of the Company as at 31 January 2009 and 31 January 2008 are listed below:

	Ordinary Shares of 25p	
	2009	2008
H. A. Stevenson	25,000	25,000
R. A. Barfield	2,440	2,418
Sir James Sassoon	35,600	35,600
M. J. E. McKeon	450	–
P. J. Scott Plummer	16,000	1,000
H. E. Staunton	10,000	–

No contracts of significance in which Directors are deemed to have been interested have subsisted during the year under review.

Contracts of service are not entered into with the Directors, who hold office in accordance with the Articles of Association.

Management Contract and Management Fee

The management contract with RCM (UK) Limited ('RCM') provides for a fee of 0.35% per annum (2008 – 0.35%) of the value of the assets, calculated quarterly, after deduction of current liabilities, short term loans under one year and any funds within the portfolio managed by RCM. The management contract is terminable at one year's notice (2008 – one year).

The Manager's performance under the contract and the contract terms are reviewed at least annually by the Management Engagement Committee. This committee consists of the Directors not employed by the management company in the past five years and therefore includes the entire Board. During the year, the committee met the Manager to review the current investment framework, including the Trust's performance, marketing activity and total expense ratio.

The committee also reviewed the terms of the management contract and considered the level of the management fee. The committee was satisfied with its review and believes that the continuing appointment of the Manager is in the best interests of shareholders as a whole.

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.

Individual Savings Accounts

The affairs of the Company are conducted in such a way as to meet the requirements for an Individual Savings Account and it is the intention to continue to do so.

Annual General Meeting

Purchase of Own Shares

The Board is proposing that the Company should be given renewed authority to purchase Ordinary Shares in the market for cancellation. The Board believes that such purchases in the market at appropriate times and prices are a suitable method of enhancing shareholder value. The Company would make either a single purchase or a series of purchases, when market conditions are suitable, with the aim of maximising the benefits to shareholders and within guidelines set from time to time by the Board.

Where purchases are made at prices below the prevailing net asset value of the Ordinary Shares, this will enhance net asset value for the remaining shareholders. It is therefore intended that purchases would only be made at prices below net asset value, with the purchases to be funded from the capital reserves of the Company (which are currently in excess of £250 million). The rules of the UK Listing Authority ('Listing Rules') limit the price which may be paid by the Company to 105% of the average middle-market quotation for an Ordinary Share on the five business days immediately preceding the date of the relevant purchase. The minimum price to be paid will be 25p per Ordinary Share (being the nominal value). Overall, this proposed share buy-back authority, if used, should help to reduce the discount to net asset value at which the Company's shares currently trade.

The Board considers that it will be most advantageous to shareholders for the Company to be able to continue to make such purchases as and when it considers the timing to be most favourable and therefore does not propose to set a timetable for making any such purchases.

Directors' Report

The Company's Articles of Association permit the Company to redeem or purchase its own shares out of capital profits. Under the Listing Rules, the maximum number of shares which a listed company may purchase through the market pursuant to a general authority such as this is equivalent to 14.99% of its issued share capital. For this reason, the Company is limiting its renewed authority to make such purchases to 15,411,738 Ordinary Shares, representing 14.99% of the issued share capital, provided that there is no change in the issued share capital between the date of this report and the Annual General Meeting to be held on 12 May 2009.

The authority will last until the Annual General Meeting of the Company to be held in 2010 or the expiry of 18 months from the date of the passing of this resolution, whichever is the earlier. The authority will be subject to renewal by shareholders at subsequent annual general meetings.

Allotment of New Shares and Disapplication of Pre-emption Rights

Approval is sought for the renewal of the Directors' authority to allot relevant securities, in accordance with Section 80 of the Companies Act 1985, up to a maximum aggregate nominal amount of £8,567,788, representing approximately 33% of the existing Ordinary Share capital. This authority would expire five years from the date of renewal, if not previously revoked or varied.

A resolution was passed at the Annual General Meeting held on 13 May 2008 to authorise the Directors to allot the unissued Ordinary Share capital for cash. The authority is renewable annually and expires at the conclusion of the Annual General Meeting in 2009. A Special Resolution is therefore proposed under special business at the forthcoming Annual General Meeting to renew this authority for a further year.

The power to allot new Ordinary Shares for cash, other than pro rata to existing shareholders, is limited to the aggregate nominal amount of £2,570,336 Ordinary Share capital, being approximately ten per cent of the issued Ordinary Share capital of the Company as at the date of this report, provided that there is no change in the issued share capital between the date of this report and the Annual General Meeting to be held on 12 May 2009.

The Directors do not currently intend to allot shares under these authorities other than to take advantage of opportunities in the market as they arise and only if they believe it would be advantageous to the Company's existing shareholders to do so. The Directors confirm that no allotment of new shares will be made unless the lowest market offer price of the Ordinary Shares is at least at a premium to net asset value, valuing debt at market value.

Auditors

The Directors will place a resolution before the Annual General Meeting to re-appoint PricewaterhouseCoopers LLP as Auditors for the ensuing year. A resolution to authorise the Directors to determine the Auditors' remuneration will also be proposed at the Annual General Meeting.

By Order of the Board
K. J. Salt | Secretary
6 April 2009

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Financial Report, Directors' Remuneration Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice. Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

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

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

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Annual Financial Report, Directors' Remuneration Report and the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements are published on www.merchantstrust.co.uk, which is a website maintained by the Company's Investment Manager, RCM (UK) Limited. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. The work undertaken by the Auditors does not involve consideration of the maintenance and integrity of the website and, accordingly, the Auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Statement under DTR 4.1.12

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
- this 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
Hugh Stevenson | Chairman
6 April 2009

Corporate Governance Statement

The Board has considered the principles and recommendations of the Association of Investment Companies Code of Corporate Governance ("AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies ("AIC Guide"). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 of the Combined Code which was issued by the Financial Reporting Council in June 2006, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide, will provide better information to shareholders. The Company has complied with the recommendations of the AIC Code and the relevant provisions of Section 1 of the Combined Code, except in relation to the Combined Code provisions relating to: the role of the chief executive, executive directors' remuneration and the need for an internal audit function. For the reasons set out in the AIC Guide, and in the preamble to the Combined Code, the Board considers these provisions are not relevant to the Company as it is an externally managed investment company. The Company has therefore not reported further in respect of these provisions.

The Board

The Board currently consists of six Directors, all of whom are non-executive and independent of the Company's investment manager. Although the number of Directors will fall to five after the Annual General Meeting, it is intended to recruit another Director to bring the number back up to six. The Directors' biographies, on page 15, demonstrate a breadth of investment, industrial, commercial and professional experience.

The Chairman of the Company is a non-executive Director. Sir James Sassoon will be appointed as the Senior Independent Director to replace Joe Scott Plummer when he retires in May 2009.

The Board follows the AIC Code and considers Hugh Stevenson and Dick Barfield to be independent, notwithstanding that each has served on the Board for more than nine years. The Board does not consider that length of service has diminished the independence of these directors and continues to be of the view that their extensive experience and active knowledge of the industry is of great benefit to the Board. However, after the Annual General Meeting in May 2009, a majority of Directors will have less than nine years service. The composition of the Board is reviewed regularly and as stated above we are looking to recruit another Director.

The Board's tenure policy is that new Directors stand for election at the first Annual General Meeting following their appointment and then at least one third of Directors retire by rotation at each Annual General Meeting. Every Director is required to seek re-election at least every three years and annually after nine years' service. The names of the Directors retiring by rotation and those other Directors retiring in accordance with the Articles of Association at this year's Annual General Meeting are given on page 19.

The Board meets at least six times a year and convenes other meetings as and when required. Between meetings, regular contact with the investment manager is maintained. The Board has a schedule of matters reserved for its approval to ensure it has full and effective control over appropriate issues. These issues include approval of the Company's investment policy, capital structure, share price and discount, committee membership and terms of reference, financial reporting, risk management, board appointments and removals, corporate governance, internal controls and contracts. A procedure has been adopted for Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company. The Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are followed and that the Company complies with applicable rules and regulations. When a new Director is appointed there is an induction process carried out by the investment manager. Directors are provided, on a regular basis, with key information on the Company's regulatory and statutory requirements and internal financial controls. Changes affecting Directors' responsibilities are advised to the Board as they arise.

During the year, the effectiveness of the Board and the performance of individual Directors was assessed through interviews conducted by the Chairman with each Director. The Chairman's own performance was evaluated by the other Directors in discussions with Joe Scott Plummer as Senior Independent Director. The results of the effectiveness assessment and performance evaluation have been presented to the Nomination Committee.

The effectiveness assessment determined that with the planned recruitment of new Directors the balance of the Board was satisfactory.

The Board has contractually delegated to the investment manager the management of the investment portfolio, and the day to day accounting and company secretarial requirements. This contract was entered into after full and proper consideration by the Board of the quality and cost of services offered, including the financial control systems in operation, in so far as they relate to the affairs of the Company. The Board receives and considers reports regularly from the investment manager and ad hoc reports and information are supplied to the Board as required. The Board's statement on its review of the management contract appears on page 20.

Corporate Governance Statement

Attendance by Directors at formal Board and committee meetings during the year was as follows:

Director	Board	Audit Committee	Nomination Committee	Management Engagement Committee
No. of meetings	6	2	1	1
H. A. Stevenson	6	2*	1	1
R. A. Barfield	6	2	1	1
Sir Bob Reid#	2	1	–	–
Sir James Sassoon	6	2	1	1
M. J. E. McKeon~	5	1	–	–
P. J. Scott Plummer	6	2	1	1
H. E. Staunton~	2	–	–	–

*Invited to attend meetings, although not a committee member.
#Retired from the Board in May 2008.
~Appointed to the Board in May 2008.

Conflicts of Interest

The Companies Act 2006 sets out directors' general duties with some changes from the previously existing law. A director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. Since 1 October 2008, directors are able to authorise these conflicts and potential conflicts if their company's articles of association allow it. At the Annual General Meeting last year, shareholders approved changes to the Company's Articles of Association that permit the Directors to deal with and authorise conflicts or potential conflicts of interest. The Board intends to report annually on the Company's procedures for ensuring that its powers of authorisation of conflicts are operated effectively and that the procedures have been followed.

Each of the Directors has provided a statement of all conflicts of interest and potential conflicts of interest relating to the Company. These statements have been considered and approved by the Board. The Directors have undertaken to notify the Chairman and Company Secretary of any proposed new appointments and new conflicts or potential conflicts for consideration, if necessary, by the Board. The Board has agreed that only Directors who have no interest in the matter being considered will be able to take the relevant decision and that in taking the decision the Directors will act in a way they consider, in good faith, will be most likely to promote the Company's success. The Board is able to impose limits or conditions when giving authorisation if it thinks this is appropriate.

The Board confirms that its powers of authorisation are operating effectively and that the agreed procedures have been followed.

Board Committees

Audit Committee

The Audit Committee consists of all of the independent non-executive Directors, with the exception of the Chairman, and has defined terms of reference and duties. The role of the Audit Committee is to assist the Board in relation to the reporting of financial information. The Audit Committee is chaired by Sir James Sassoon. The committee considers that, collectively, its members have sufficient recent and relevant financial experience to discharge their responsibilities fully. The committee meets at least twice each year and reviews the annual and half yearly financial statements and considers the Auditors' report on the annual accounts, the planning and the process of the audit and the Auditors' independence and objectivity. It has also considered the non-audit services provided by the Auditors and determined that they have had no impact on the Auditors' independence and objectivity. The Audit Committee reviews the Company's accounting policies and considers their appropriateness. The Committee also reviews the terms of appointment of the Auditors together with their remuneration. It meets representatives of the Manager twice-yearly and receives reports on the internal controls maintained on behalf of the Company and reviews the effectiveness of these controls. The Audit Committee continues to believe that the Company does not require an internal audit function of its own as it delegates its day to day operations to third parties from whom it receives internal controls reports.

As the Company has no employees it does not have a formal policy concerning the raising, in confidence, of any concerns about improprieties, whether in matters of financial reporting or otherwise, for appropriate independent investigation. The Audit Committee has, however, received and noted the Manager's policy on this matter.

Corporate Governance Statement

Nomination Committee

The Nomination Committee meets at least once each year and makes recommendations on the appointment of new Directors and the re-election of existing Directors by shareholders. The committee also determines the process for the annual evaluation of the Board. The Committee is chaired by Hugh Stevenson, the Chairman of the Board. All Directors serve on the committee and consider nominations made in accordance with an agreed procedure.

Management Engagement Committee

The Management Engagement Committee meets at least once each year to review the Management Agreement and the Manager's performance. It has defined terms of reference and consists of the non-executive Directors and excludes any Directors previously employed by the Manager. It is chaired by Hugh Stevenson, the Chairman of the Board.

The Board has not constituted a Remuneration Committee; all Directors are non-executive and remuneration matters are dealt with by the whole Board.

Terms of Reference

The Terms of Reference for each of the committees may be viewed by shareholders on request and are published on the website www.merchantstrust.co.uk.

Financial Reporting

The Statement of Directors' Responsibilities in respect of the financial statements is on page 22.

The Independent Auditors' Report can be found on pages 30 and 31.

Auditors' Information

Each of the persons who is a Director at the date of approval of this report confirms that:

(a) in so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

(b) the Director has taken all the steps he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985.

Internal Control

The Directors have overall responsibility for the Company's system of internal control. Whilst acknowledging their responsibility for the system of internal control, the Directors are aware that such a system is designed to manage rather than eliminate the risk of a failure to achieve business objectives and can provide only reasonable but not absolute assurance against material misstatement or loss.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process is subject to review by the Board and accords with the Internal Control Guidance for Directors in the Combined Code published in September 1999 and revised in October 2005 ("the Turnbull guidance"). The process has been fully in place throughout the year under review and up to the date of signing of this Annual Financial Report.

The key elements of the procedures that the Directors have established and which are designed to provide effective internal control are as follows:

- The Board, assisted by the Manager, undertook a full review of the Company's business risks and these are analysed and recorded in a risk matrix. Every six months the Board receives from the Manager a formal report which details any known internal controls failures, including those that are not directly the responsibility of the Manager. The Board continues to check that good systems of internal control and risk management are embedded in the operations and culture of the Company and its key suppliers.

- The appointment of RCM (UK) Limited ('RCM') as the Manager provides investment management, accounting and company secretarial services to the Company. The Manager therefore maintains the internal controls associated with the day to day operation of the Company. These responsibilities are included in the Management Agreement between the Company and the Manager. The Manager's system of internal control includes organisation arrangements with clearly defined lines of responsibility and delegated authority as well as control

Corporate Governance Statement

procedures and systems which are regularly evaluated by management and monitored by its internal audit department. RCM is regulated by the Financial Services Authority ('FSA') and its compliance department regularly monitors compliance with FSA rules. The Company receives reports at least annually from the manager on its internal controls. The Company, in common with other investment trusts, has no internal audit department, but the effectiveness of the Manager's internal controls is monitored by Allianz Global Investors' internal audit function.

- There is a regular review by the Board of asset allocation and any risk implications. There is also regular and comprehensive review by the Board of management accounting information including revenue and expenditure projections, actual revenue against projections and performance comparisons.
- Authorisation and exposure limits are set and maintained by the Board.
- The Audit Committee assesses the Manager's and Custodian's systems of controls by reviewing Internal Control reports provided by the Managers and third party service providers, including those of the Company's Registrars, Capita Registrars, and Custodian, HSBC Bank plc.

The Directors confirm that the Audit Committee has reviewed the effectiveness of the system of internal control. During the course of its review of the system of internal control, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant.

Relations with Shareholders

The Board strongly believes that the annual general meeting should be an event which private shareholders are encouraged to attend. The annual general meeting is attended by the Chairman of the Board and the Chairman of the Audit Committee, and the Investment Manager makes a presentation at the meeting. The number of proxy votes cast in respect of each resolution will be made available at the annual general meeting.

The Manager meets with institutional shareholders on a regular basis and report to the Board on matters raised at these meetings.

All correspondence with shareholders is reviewed by the Board.

Shareholders who wish to communicate directly with the Chairman, the Senior Independent Director or other Directors may write care of the Company Secretary at 155 Bishopsgate, London EC2M 3AD.

The Notice of Meeting sets out the business of the meeting and special resolutions are explained more fully in the Directors' Report. Separate resolutions are proposed for each substantive issue.

Corporate Social Responsibility and Environmental Policy

The Investment Manager has been directed by the Board to take account of companies' corporate social responsibility and environmental performance when taking investment decisions.

The Board has noted the Manager's views on Social Responsibility that it adheres to in engaging with the underlying investee companies and in exercising its delegated responsibilities in voting. These are that:

"We believe that good corporate governance includes the management of the company's impacts on society and the environment, as these are increasingly becoming a factor in contributing towards maximising long term shareholder value."

Exercise of Voting Powers

The Company's investments are held in a nominee name. The Board has delegated discretion to discharge its responsibilities in respect of investments, including the exercise of voting powers on its behalf, to the Manager.

The Board has noted the Manager's statement of its corporate governance aims and objectives, summarised as:

> "Our primary corporate aim is to maximise shareholder value through the securing of corporate performance whilst protecting this value through operating within established rules of conformance.
>
> Our primary investment management aim is to meet or exceed our clients' expectations through generating first class returns within the constraint of their risk tolerance.

Corporate Governance Statement

> RCM votes in all markets wherever possible, and strives actively to encourage both improved levels of disclosure among companies and proper voting infrastructure among custodians and agents globally."

In the UK, RCM is a member of the National Association of Pension Funds (NAPF) and the International Corporate Governance Network (ICGN), and abides by these organisations' founding principles. These guidelines also take into account international codes of corporate governance from a number of sources, including Employment Retirement Income Security Act (ERISA) legislation and Department of Labor recommendations in the U.S. where appropriate.

Where Directors hold directorships on the boards of companies in which the Company is invested, they do not participate in decisions made concerning those investments.

An extract from the Trust's voting record in the previous calendar year will be available for inspection at the annual general meeting each year.

Directors' Remuneration Report

This report is submitted in accordance with Schedule 7A of the Companies Act 1985 for the year ended 31 January 2009.

The Board

The Board of Directors is composed solely of non-executive Directors and the determination of the Directors' fees is a matter dealt with by the whole Board. The Board has not been provided with advice or services by any person to assist it to make its remuneration decisions, although the Directors carry out reviews from time to time of the fees paid to the directors of other investment trusts.

Policy on Directors' Remuneration

No Director has a service contract with the Company. The Company's policy is for the Directors to be remunerated in the form of fees, payable quarterly in arrears. There are no long term incentive schemes, bonuses, pension benefits, share options or other benefits and fees are not related to the individual Director's performance, nor to the performance of the Board as a whole.

The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £150,000 per annum. Subject to this overall limit, it is the Board's policy to determine the level of Directors' fees having regard to the level of fees payable to non-executive Directors in the investment trust industry generally, the role that individual Directors fulfil, and the time committed to the Company's affairs. The Board believes that levels of remuneration should be sufficient to attract and retain non-executive directors to oversee the Company.

Directors' and officers' liability insurance cover is held by the Company. Following the approval of the proposal at last year's Annual General Meeting to change the Company's Articles of Association to enable the Company to grant indemnities to the Directors individually, deeds of indemnity have been entered into with the Directors.

Remuneration

The policy is to review Directors' fees from time to time, but reviews will not necessarily result in a change to the rates. In accordance with this policy the Board reviewed the fees during the year and agreed not to increase the fees at that time. As disclosed in last year's report, with effect from 1 June 2008 the Directors were paid at a rate of £18,000 per annum, with an additional £3,000 payable to the Audit Committee Chairman, and the Chairman of the Board was paid at a rate of £27,500 per annum. Prior to that, since June 2006, the rates were: £15,000 for the Directors, with an additional £2,000 for the Chairman of the Audit Committee, and £25,000 for the Chairman of the Board.

Directors' Emoluments (Audited)

The following disclosures on Directors' remuneration have been audited as required by Part 3 of Schedule 7A of the Companies Act 1985.

The Directors' Emoluments during the year and in the previous year are as follows:

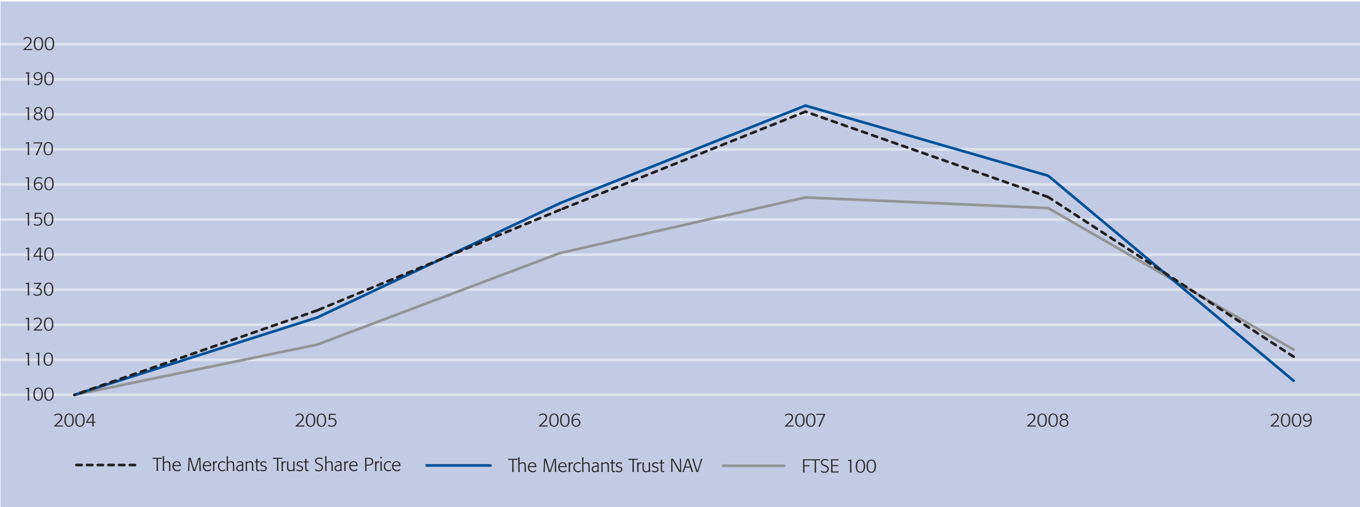
	Directors' fees	
	2009	**2008**
	£	**£**
H. A. Stevenson	26,667	25,000
Sir John Banham	–	4,327
R. A. Barfield	17,000	15,000
Sir Bob Reid	4,269	15,000
M. J. E. McKeon	13,500	–
Sir James Sassoon	19,667	17,000
P. J. Scott Plummer	17,000	15,000
H. E. Staunton	13,500	–
Totals	**111,603**	**91,327**

Directors' Remuneration Report

Performance Graph

The graph below measures the Company's share price and net asset value performance against its benchmark index of the FTSE 100 Index and is re-based to 100.

The Company's performance is measured against the FTSE 100 Index as this is the most appropriate comparator in respect of its asset allocation. An explanation of the Company's performance is given in the Chairman's Statement and the Investment Manager's Review.



By Order of the Board
K. J. Salt | Secretary
6 April 2009

Independent Auditors' Report

Independent Auditors' Report to the Members of The Merchants Trust PLC

We have audited the financial statements of The Merchants Trust PLC for the year ended 31 January 2009 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Financial Report, Directors' Remuneration Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Investment Manager's Review and other elements of the Annual Financial Report that is cross-referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the Combined Code 2006 specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Financial Report and consider whether it is consistent with the audited financial statements. The other information comprises the Investment Policy, Financial Summary, Chairman's Statement, Historical Record, Performance Attribution Analysis, Investment Manager's Review, Listed Holdings, Distribution of Total Assets, Performance Graphs, the Directors' Report, the Corporate Governance Statement, the unaudited part of the Directors' Remuneration Report and Investor Information and Contact Details. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Independent Auditors' Report

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 January 2009 and of its net return and cash flows for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
6 April 2009

Income Statement for the year ended 31 January 2009

	Notes	2009 Revenue Return £	2009 Capital Return £	2009 Total Return £	2008 Revenue Return £	2008 Capital Return £	2008 Total Return £
Net losses on investments at fair value	8	–	(189,593,060)	(189,593,060)	–	(72,106,540)	(72,106,540)
Income	1	31,729,754	–	31,729,754	28,495,032	–	28,495,032
Investment management fee	2	(658,425)	(1,222,788)	(1,881,213)	(899,044)	(1,669,652)	(2,568,696)
Investment management fee VAT refund	2	966,622	205,850	1,172,472	–	–	–
Administrative expenses	3	(599,808)	(2,967)	(602,775)	(585,839)	(2,560)	(588,399)
Net return before finance costs and taxation		**31,438,143**	**(190,612,965)**	**(159,174,822)**	**27,010,149**	**(73,778,752)**	**(46,768,603)**
Finance costs: interest payable and similar charges	4	(3,420,245)	(6,271,962)	(9,692,207)	(3,342,277)	(6,116,736)	(9,459,013)
Net return on ordinary activities before taxation		**28,017,898**	**(196,884,927)**	**(168,867,029)**	**23,667,872**	**(79,895,488)**	**(56,227,616)**
Taxation	5	–	–	–	(18,052)	–	(18,052)
Net return on ordinary activities attributable to Ordinary Shareholders		**28,017,898**	**(196,884,927)**	**(168,867,029)**	**23,649,820**	**(79,895,488)**	**(56,245,668)**
Return per Ordinary Share (basic and diluted)	7	**27.25p**	**(191.50p)**	**(164.25p)**	**22.86p**	**(77.23p)**	**(54.37p)**

Dividends in respect of the financial year ended 31 January 2009 total 22.80p (2008 – 21.60p), costing £23,441,469 (2008 – £22,278,168). Details are set out in Note 6 on page 40.

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

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

A Statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above statement.

The Notes on pages 36 to 50 form an integral part of these Financial Statements.

Reconciliation of Movements in Shareholders' Funds
for the year ended 31 January 2009

	Note	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	6	–	–	–	–	–	(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	6	–	–	–	–	–	(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**

The Notes on pages 36 to 50 form an integral part of these Financial Statements.

Balance Sheet as at 31 January 2009

	Notes	2009 £	2009 £	2008 £
Fixed Assets				
Investments held at fair value through profit or loss	8		411,795,591	608,450,967
Current Assets				
Debtors	10	3,877,216		7,333,938
Cash at bank	10	14,511,020		5,945,385
		18,388,236		**13,279,323**
Creditors – Amounts falling due within one year	10	(1,906,701)		(2,129,286)
Net Current Assets			**16,481,535**	**11,150,037**
Total Assets Less Current Liabilities			**428,277,126**	**619,601,004**
Creditors – Amounts falling due after more than one year	10		(113,473,090)	(113,413,791)
Total Net Assets			**314,804,036**	**506,187,213**
Capital and Reserves				
Called up Share Capital	11		25,703,366	25,703,366
Share Premium Account	12		7,527,047	7,527,047
Capital Redemption Reserve	13		292,853	292,853
Capital Reserves: Realised	14	385,617,142		431,358,941
Unrealised	14	(134,498,602)		16,644,526
			251,118,540	**448,003,467**
Revenue Reserve	15		30,162,230	24,660,480
Equity Shareholders' Funds	16		**314,804,036**	**506,187,213**
Net Asset Value per Ordinary Share	16		**306.2p**	**492.3p**

The financial statements on pages 32 to 50 were approved and authorised for issue by the Board of Directors on 6 April 2009 and signed on its behalf by:

Hugh Stevenson | Chairman

The Notes on pages 36 to 50 form an integral part of these Financial Statements.

Cash Flow Statement for the year ended 31 January 2009

	Notes	2009 £	2009 £	2008 £
Net cash inflow from operating activities	19		**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	6		(22,516,148)	(21,757,822)
Net cash inflow before financing			**8,565,635**	**3,586,256**
Financing				
Purchase of Ordinary Shares for cancellation	11		–	(4,643,972)
Increase (Decrease) in cash	20		**8,565,635**	**(1,057,716)**

The Notes on pages 36 to 50 form an integral part of these Financial Statements.

Statement of Accounting Policies for the year ended 31 January 2009

1. The financial statements have been prepared under 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).

   In order better to reflect the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been presented alongside the Income Statement. In accordance with the Company's status as a UK investment company under section 266 of the Companies Act 1985, net capital returns may not be distributed by way of dividend.

   The accounting policies adopted in preparing the current year's financial statements are consistent with those of previous years.

   The Directors believe that 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. The Company's business, the principal risks and uncertainties it faces, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report, Business Review section on pages 16 to 18.

2. Revenue – Dividends on equity shares are accounted for on an ex-dividend basis. UK dividends are shown net of tax credits.

   Special dividends are recognised on an ex-dividend basis and treated as a capital or revenue item depending on the facts and circumstances of each dividend.

   Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, the equivalent of the cash dividend is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend is recognised in capital reserves.

   Deposit interest receivable and stocklending fees are accounted for on an accruals basis. Underwriting commission is recognised when the issue underwritten closes.

3. Investment management fees and administrative expenses – The investment management fee is calculated on the basis set out in Note 2 to the financial statements and is charged to capital and revenue in the ratio 65:35 to reflect the Board's investment policy and prospective split of capital and income returns. Other administrative expenses are charged in full to revenue, except transaction charges which are charged to capital. All expenses are recognised on an accrual basis.

4. Valuation – As the Company's business is investing in financial assets with a view to profiting from their total return in the form of increases in fair value, financial assets are designated as held at fair value through profit or loss in accordance with FRS 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 and loss are initially recognised at fair value. After initial recognition, these continue to be measured at fair value, which for quoted investments is either the bid price or the last traded price depending on the convention of the exchange on which the investment is listed.

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

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

5. Finance costs – In accordance with the Financial Reporting Standard 25 'Financial Instruments: Disclosure and Presentation' and FRS 26 'Financial Instruments: Recognition and Measurement', long term borrowings are stated at the amount of net proceeds on issue plus accrued finance costs to date. Finance costs are calculated over the term of the debt on the effective interest rate basis.

   Where debt is issued at a premium, the premium is amortised over the term of the debt on the effective interest rate basis.

Statement of Accounting Policies

Finance costs net of amortised premiums are charged to capital and revenue at a ratio of 65:35 to reflect the Board's investment policy and prospective split of capital and revenue returns.

Dividends payable on the 3.65% Cumulative Preference Stock are classified as an interest expense and are charged in full to revenue.

6. Taxation – Where expenses are allocated between capital and revenue, any tax relief obtained in respect of those expenses is allocated between capital and revenue on the marginal basis using the Company's effective rate of Corporation tax for the accounting period.

   Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax or a right to pay less tax in the future have occurred. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements.

   A deferred tax asset is recognised when it is more likely than not that the asset will be recoverable. Deferred tax is measured on a non-discounted basis at the rate of corporation tax that is expected to apply when the timing differences are expected to reverse.

7. Foreign currency – In accordance with FRS 23 'The effect of changes in Foreign Currency Exchange Rates', the Company is required to nominate a functional currency, being the currency in which the Company predominately operates. The functional and reporting currency is pound sterling, reflecting the primary economic environment in which the Company operates. Transactions in foreign currencies are translated into sterling at the rates of exchange ruling on the date of the transaction. Foreign currency assets and liabilities are translated into sterling at the rates of exchange ruling at the balance sheet date. Profits and losses thereon are recognised in Capital Reserves.

8. Dividends – 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.

9. Preference Stock – Following the introduction of FRS 25 'Financial Instruments: Disclosure and Presentation', the 3.65% Cumulative Preference Stock is classified as a liability as the rights of the stockholders to receive dividend payments are not calculated by reference to the Company's profits.

10. Shares repurchased and subsequently cancelled – Called up Share Capital is reduced by the nominal value of the shares repurchased, and the Capital Redemption Reserve is correspondingly increased in accordance with Section 170 Companies Act 1985. The full cost of the repurchase is charged to the Realised Capital Reserve.

Notes to the Financial Statements for the year ended 31 January 2009

1. Income

	2009 £	2009 £	2008 £
Income from investments:*			
Franked dividends from UK investments+		29,441,527	28,043,754
Stock dividends from UK investments		877,888	–
Unfranked dividends from UK investments		–	77,388
		30,319,415	**28,121,142**
Other income:			
Deposit interest	321,993		350,513
Other interest#	839,281		–
Underwriting commission	235,500		–
Stocklending fees	13,565		23,377
		1,410,339	**373,890**
Total income		**31,729,754**	**28,495,032**

* All equity income is derived from listed investments.
+Includes special dividends of £170,891 (2008 – £502,450).
#Interest on investment management fee VAT refund for the period 1990 to 1996.

2. Investment Management Fee

	2009 Revenue £	2009 Capital £	2009 Total £	2008 Revenue £	2008 Capital £	2008 Total £
Investment management fee	**658,425**	**1,222,788**	**1,881,213**	**899,044**	**1,669,652**	**2,568,696**
Investment management fee VAT refund						
– financial years 1990-1994	(760,772)	–	(760,772)	–	–	–
– financial years 1995-1996	(205,850)	(205,850)	(411,700)	–	–	–
	(966,622)	**(205,850)**	**(1,172,472)**	**–**	**–**	**–**
Total	**(308,197)**	**1,016,938**	**708,741**	**899,044**	**1,669,652**	**2,568,696**

The management contract with RCM (UK) Limited ('RCM'), terminable at one year's notice, provides for a management fee based on 0.35% (2008 – 0.35%) per annum of the value of the Company's assets calculated monthly after deduction of current liabilities, short term loans under one year and any funds within the portfolio management by RCM. Under the contract, RCM provides the Company with investment management, accounting, secretarial and administration services.

As a consequence of the European Court of Justice ruling in the VAT case on 28 June 2007, VAT has not been charged on management fees since 1 May 2007. The amounts stated include irrecoverable VAT of £nil (2008 – £108,856). Following the ruling, a VAT refund for the period 1990 to 1996 totalling £1,172,472, along with interest of £839,281 was received from HM Revenue & Customs. These amounts are included in the Company's Income Statement for the year ended 31 January 2009.

Notes to the Financial Statements for the year ended 31 January 2009

3. Administrative Expenses

	2009 £	2008 £
Auditors' remuneration:		
for audit services	24,725	24,087
for non-audit services	12,556	3,525
	37,281	**27,612**
Directors' fees	111,603	91,327
Marketing costs and Savings Scheme	106,490	165,276
Other administrative expenses	344,434	301,624
	599,808	**585,839**

(i) The above expenses include value added tax where applicable.

(ii) Directors' fees are set out in the Directors' Remuneration Report on page 28.

(iii) Auditors' remuneration includes VAT of £5,031 (2008 – £4,113). Auditors' remuneration for non-audit services represents fees for reviewing compliance with loan covenants and also advice on VAT issues.

(iv) Transaction costs of £2,967 were charged to Capital (2008 – £2,560).

4. Finance Costs: Interest Payable and Similar Charges

	2009 Revenue £	2009 Capital £	2009 Total £	2008 Revenue £	2008 Capital £	2008 Total £
On Stepped Rate Interest Loan	1,411,594	2,621,532	4,033,126	1,338,486	2,485,760	3,824,246
On Fixed Rate Interest Loan	1,321,641	2,454,476	3,776,117	1,312,402	2,437,318	3,749,720
On 4% Perpetual Debenture Stock	19,250	35,750	55,000	19,250	35,750	55,000
On 5.875% Secured Bonds	624,725	1,160,204	1,784,929	623,489	1,157,908	1,781,397
On 3.65% Cumulative Preference Stock	42,997	–	42,997	42,997	–	42,997
On Sterling overdraft	38	–	38	5,653	–	5,653
	3,420,245	**6,271,962**	**9,692,207**	**3,342,277**	**6,116,736**	**9,459,013**

5. Taxation

	2009 Revenue £	2009 Capital £	2009 Total £	2008 Revenue £	2008 Capital £	2008 Total £
Overseas taxation	–	–	–	18,052	–	18,052
Current tax charge	**–**	**–**	**–**	**18,052**	**–**	**18,052**
Reconciliation of tax charge						
Return on ordinary activities before taxation	28,017,898	(196,884,927)	(168,867,029)	23,667,872	(79,895,488)	(56,227,616)
Corporation tax at 28.33% (2008 – 30%)	7,937,470	(55,777,500)	(47,840,030)	7,100,362	(23,968,646)	(16,868,284)
Reconciling factors:						
Non taxable income	(8,589,490)	–	(8,589,490)	(8,413,126)	–	(8,413,126)
Non taxable capital losses	–	53,711,714	53,711,714	–	21,631,962	21,631,962
Disallowable expenses	31,705	37,749	69,454	62,629	492	63,121
Excess of allowable expenses over taxable income	620,315	2,028,037	2,648,352	1,250,135	2,336,192	3,586,327
Overseas tax suffered	–	–	–	18,052	–	18,052
Current tax charge	**–**	**–**	**–**	**18,052**	**–**	**18,052**

Notes to the Financial Statements for the year ended 31 January 2009

The Company's taxable income is exceeded by its tax allowable expenses, which include both the revenue and capital elements of the management fee and finance costs of borrowing. The Company has surplus expenses carried forward of £125.6 million (2008 – £114.2 million). Given the Company's current investment strategy, it is unlikely to generate sufficient UK taxable profits to relieve these expenses.

As at 31 January 2009 there is an unrecognised deferred tax asset measured of £35.1 million (2008 – £32.0 million). This deferred tax asset relates to the current and prior year unutilised expenses. It is considered unlikely that there will be a liability in the future against which the deferred tax asset can be offset. Therefore the asset has not been recognised.

Due to the Company's status as an investment trust and the intention to continue meeting the conditions to obtain approval in the foreseeable future, the Company has not provided deferred tax on any capital gains and losses arising on the disposal of investments.

6. Dividends on Ordinary Shares

	2009 £	2008 £
Dividends on Ordinary Shares of 25p:		
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)	5,757,554	5,577,383
	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 page 37 – Statement of Accounting Policies). Details of these dividends are set out below.

	2009 £	2008 £
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)	5,757,554	5,551,927
	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 allotments, purchases and cancellations of shares by the Company settled subsequent to the year end.

7. Return per Ordinary Share

	2009 Revenue £	2009 Capital £	2009 Total £	2008 Revenue £	2008 Capital £	2008 Total £
Return after taxation attributable to Ordinary Shareholders	28,017,898	(196,884,927)	(168,867,029)	23,649,820	(79,895,488)	(56,245,668)
Return per Ordinary Share	27.25p	(191.50p)	(164.25p)	22.86p	(77.23p)	(54.37p)

The weighted average number of shares in issue during the year was 102,813,464 (2008 – 103,451,633).

Notes to the Financial Statements for the year ended 31 January 2009

8. Fixed Asset Investments

	2009 £	2008 £
Listed on the London Stock Exchange at market valuation	411,768,166	608,423,542
Unlisted at fair value	27,425	27,425
Total fixed asset investments	**411,795,591**	**608,450,967**
Market value of investments brought forward	608,450,967	695,769,971
Unrealised gains brought forward	(16,644,526)	(131,247,275)
Cost of investments held brought forward	**591,806,441**	**564,522,696**
Additions at cost	152,890,966	187,418,494
Disposals at cost	(198,403,214)	(160,134,749)
Cost of investments held at 31 January	**546,294,193**	**591,806,441**
Unrealised (losses) gains at 31 January	(134,498,602)	16,644,526
Market value of investments held at 31 January	**411,795,591**	**608,450,967**
Net losses on investments		
Net realised (losses) gains based on historical costs	(38,449,932)	34,315,606
Adjustment for net unrealised gains recognised in previous years	(3,841,501)	(42,276,719)
Net realised losses based on carrying value at previous balance sheet date	**(42,291,433)**	**(7,961,113)**
Net unrealised losses arising in the year	(147,301,627)	(72,326,030)
Net losses on investments before special dividends	**(189,593,060)**	**(80,287,143)**
Special dividends credited to capital	–	8,180,603
Net losses on investments	**(189,593,060)**	**(72,106,540)**

Transaction costs and stamp duty on purchases amounted to £878,184 (2008 – £1,176,671). Transaction costs on sales amounted to £221,763 (2008 – £291,295).

Stocklending	**2009**	**2008**
Aggregate value of securities on loan at year end	£nil	£14.6m
Maximum aggregate value of securities on loan during the year	£59.3m	£62.3m
Fee income from stocklending during the year	£13,565	£23,377

In respect of securities on loan at the year-end, the Company held £Nil (2008 – £15.3m) as collateral, the value of which exceeded the value of the loan securities by £Nil (2008 – £0.7m).

In respect of the maximum aggregate value of securities on loan during the year, the Company held £62.2m (2007 – £64.8m) as collateral, the value of which exceeded the value of securities on loan by £3.0m (2008 – £2.5m).

9. Investments in Other Companies

The Company held more than 10% of the share capital of the following companies, both of which are incorporated in Great Britain and registered in England and Wales:

Company	Total Net Assets* £	Class of Shares held	% of Class held	% Equity
First Debenture Finance PLC ('FDF')	(4,712,007)	'A' Shares	39.2	
		'B' Shares	59.2	49.2
		'C' Shares	45.6	
		'D' Shares	53.3	
Fintrust Debenture PLC ('Fintrust')	19,159	Ordinary	50.0	50.0

* As at the date of the latest published financial statements of FDF or Fintrust, as appropriate.

Notes to the Financial Statements for the year ended 31 January 2009

In the opinion of the Directors, the Company is not in a position to exert significant influence over the financial operating policies of FDF or Fintrust, either through voting rights or through agreement with those companies' other shareholders, due to provisions in FDF and Fintrust's Articles of Association and in certain contracts between the Company and each of FDF and Fintrust. The aggregate share capital, reserves and results are immaterial to the Company's financial statements. FDF and Fintrust are the lenders of the Company's Stepped Rate Interest Loan and Fixed Rate Interest Loan, as detailed in Notes 10(i) and 10(ii), respectively. Apart from the finance costs, there were no other transactions between FDF, Fintrust and the Company during the year.

10. Current Assets and Creditors

		2009 £	2008 £
Debtors			
Sales for future settlement		–	5,784,892
Accrued income		2,662,531	1,493,835
Other debtors		1,214,685	55,211
		3,877,216	**7,333,938**
Cash at bank		**14,511,020**	**5,945,385**
Creditors – Amounts falling due within one year			
Other creditors		587,434	813,007
Interest on borrowings	10(vi)	1,319,267	1,316,279
		1,906,701	**2,129,286**
Creditors – Amounts falling due after more than one year			
Stepped Rate Interest Loan	10(i)	36,022,070	35,825,047
Fixed Rate Interest Loan	10(ii)	45,803,649	45,962,363
5.875% Secured Bonds 2029	10(iii)	29,094,371	29,073,381
4% Perpetual Debenture Stock	10(iv)	1,375,000	1,375,000
3.65% Cumulative Preference Stock	10(v)	1,178,000	1,178,000
		113,473,090	**113,413,791**

(i) The effective interest rate on the Stepped Rate Interest Loan over its terms is 11.28% per annum.

The Stepped Rate Interest Loan comprises adjustable stepped Rate Interest Loan Notes of £5,133,520 and Stepped Rate Interest Bonds of £20,534,079 issued at 97.4%. These amounts are repayable on 2 January 2018 exclusive of any redemption expenses, together with a premium of £8,366,513.

The initial interest rate in 1987 on the Loan Notes and Bonds was 7.16% per annum. This increased annually by 7.5% compound until January 1998 when it reached its current rate of 14.75%. However, the combined effect of this interest charge and the accrual of the premium referred to above results in an effective interest rate of 11.28% per annum. Interest is payable in January and July each year.

Interest on the Loan Notes is variable in accordance with the terms of the agreement with the lender, First Debenture Finance PLC ('FDF').

The Company has guaranteed the repayment of £34,012,852, being its proportionate share (65.15%) of the required amount to enable FDF to meet all of its liabilities to repay principal and interest on its £52.2 million of 11.125% Severally Guaranteed Debenture Stock 2018. There is a floating charge on all the Company's present and future assets to secure this obligation. The Company has also agreed to meet its proportionate share of any expenses incurred by FDF, including any tax liability which may accrue to FDF generally or as a result of the redemption or earlier transfer of the Stepped Rate Loan Notes and Bonds held by FDF. The accounting treatment adopted in respect of the stepped rate interest and redemption premiums is set out in the Statement of Accounting Policies.

(ii) The Fixed Rate Interest Loan of £42,000,000 is due to Fintrust Debenture PLC ('Fintrust'). This loan is repayable in 2023 and carries interest at the rate of 9.25125% per annum on the principal amount payable in arrears by equal half yearly instalments in May and November each year. As security for this loan, the Company has granted a floating charge over all its undertakings, property and assets in favour of the lender. This charge ranks *pari passu* with the floating charge noted in 10(i) above.

Notes to the Financial Statements for the year ended 31 January 2009

The original loan from Fintrust is stated at net proceeds (being the principal amount of £30,000,000 less issues costs of £141,053) plus accrued finance costs.

Following the liquidation of Kleinwort Overseas Investment Trust plc ('KOIT') in March 1998, the Company assumed £12,000,000 of KOIT's obligations to Fintrust. Both the interest cost and repayment terms of this additional borrowing were identical to the Company's existing loan of £30,000,000. In order that the finance costs on this new borrowing be comparable to existing market rates at that time, the Company also received a premium payment from KOIT of £5,286,564. This premium is being amortised over the remaining life of the loan, as set out in the Statement of Accounting Policies. At 31 January 2009, the unamortised premium included with the Fixed Rate Interest Loan balance of greater than one year amounted to £3,914,898 (2008 – £4,077,022).

(iii) The £30,000,000 5.875% Secured Bonds, repayable on 20 December 2029, carry interest at the rate of 5.875% per annum on the principal amount payable in arrears by equal half yearly instalments in June and December each year. As security for this loan the Company has granted a floating charge ranking *pari passu* with the floating charges referred in Note 10(i) and 10(ii) above over the whole of the present and future undertakings, property, assets and rights of the Company.

The accounting treatment adopted in respect of the Bonds is set out in the Statement of Accounting Policies.

(iv) The 4% Perpetual Debenture Stock is secured by a floating charge on the assets of the Company, which ranks prior to any other floating charge. Interest is repayable in arrears by equal half yearly instalments in May and November each year.

(v) The 3.65% Cumulative Preference Stock is recognised as a creditor due after more than one year under the provisions of FRS25 'Financial Instruments: Disclosure and Presentation'. The right of the Stock to receive payments is not calculated by reference to the Company's profits and, in the event of a return of capital are limited to a specific amount, being £1,178,000. Dividends on the Preference Stock are payable half yearly on 1 August and 1 February each year.

(vi) Interest on outstanding borrowings consists of:

	2009 £	2008 £
Bank overdraft interest	–	4,180
Stepped Rate Interest Loan	313,728	312,004
Fixed Rate Interest Loan	783,545	779,240
5.875% Secured Bonds 2029	208,244	207,105
4% Perpetual Debenture Stock	13,750	13,750
	1,319,267	**1,316,279**

11. Called up Share Capital

	2009 £	2008 £
Authorised		
150,403,747 Ordinary Shares of 25p (2008 – 150,403,747)	37,600,936	37,600,936
Allotted and fully paid		
102,813,464 Ordinary Shares of 25p (2008 – 102,813,464)	25,703,366	25,703,366

The Directors are authorised by an ordinary resolution passed on 13 May 2008 to allot relevant securities, in accordance with Section 80 of the Companies Act 1985, up to a maximum of 34,271,154 Ordinary Shares of 25p each. This authority expires on 12 May 2009 and accordingly a renewed authority will be sought at the Annual General Meeting on 12 May 2009.

During the year the Company did not repurchase any Ordinary Shares for cancellation or holding in treasury. Neither have any Ordinary Shares been repurchased since the year end.

12. Share Premium Account

	£
Balance at 1 February 2008 and 31 January 2009	7,527,047

Notes to the Financial Statements for the year ended 31 January 2009

13. Capital Redemption Reserve

	£
Balance at 1 February 2008 and 31 January 2009	292,853

14. Capital Reserves

	Realised £	Unrealised £	Total £
Balance at 1 February 2008	431,358,941	16,644,526	448,003,467
Net losses on realisation of investments	(42,291,433)	–	(42,291,433)
Transfer on disposal of investments	3,841,501	(3,841,501)	–
Net unrealised losses arising in the year	–	(147,301,627)	(147,301,627)
Investment management fee	(1,222,788)	–	(1,222,788)
Investment management fee VAT refund	205,850	–	205,850
Finance costs: interest payable and similar charges	(6,271,962)	–	(6,271,962)
Other capital expenses	(2,967)	–	(2,967)
Balance at 31 January 2009	**385,617,142**	**(134,498,602)**	**251,118,540**

The Institute of Chartered Accountants in England and Wales, has issued technical guidance (TECH 01/08), stating that profits arising out of a change in fair value of assets, recognised in accordance with Accounting Standards, may be distributed, provided the relevant assets can be readily converted into cash. Securities listed on a recognised stock exchange are generally regarded as being readily convertible into cash and hence unrealised profits in respect of such securities, currently included within the unrealised capital reserve, may be regarded as distributable under company law.

This technical interpretation of the meaning of distributable reserves would, as a consequence, give rise at 31 January 2009 to capital reserves available for distribution of approximately £251,118,540 after adjusting unrealised capital losses of £134,498,602.

However, under the terms of the Company's Articles of Association, Capital Reserves are available for distribution only by way of redemption or purchase of any of the Company's own shares and not for any other purpose. The Company may therefore only distribute, by way of dividend, accumulated amounts credited to the Revenue Reserve.

15. Revenue Reserve

	£
Balance at 1 February 2008	24,660,480
Revenue return for the year	28,017,898
Ordinary dividends paid during the year	(22,516,148)
Balance at 31 January 2009	**30,162,230**

16. Net Asset Value per Share

The net asset value per share was as follows:

	Net Asset Value attributable	
	2009	**2008**
Ordinary Shares of 25p	£314,804,036	£506,187,213

	Net Asset Value per Share attributable	
	2009	**2008**
Ordinary Shares of 25p	306.2p	492.3p

The net asset value per Ordinary Share is based on 102,813,464 ordinary shares in issue at the year end (2008 – 102,813,464).

17. Contingent Assets, Contingent Liabilities and Commitments

The Company has a contingent asset as at the balance sheet date relating to VAT recoverable. The contingent asset has arisen as a result of the European Court of Justice ruling on 28 June 2007 in the VAT case, brought by JP Morgan Fleming Claverhouse Trust plc in conjunction with the

Notes to the Financial Statements for the year ended 31 January 2009

Association of Investment Companies (AIC), concerning VAT exemption on management expenses for investment trusts. It is likely the Company will reach a settlement with the Manager, RCM (UK) Ltd, over the recovery of VAT paid on management fees for the period 2000 to 2007. The final sum settled could be in excess of £1.2 million.

At 31 January 2009 there were no outstanding contingent liabilities (2008 – £nil) in respect of underwriting commitments and calls on partly paid investments.

Details of the guarantee provided by the Company as part of the terms of the Stepped Rate Interest Loan are provided in Note 10(i) "Current Assets and Creditors" on page 42.

18. Subsequent Events

Due primarily to a reduction in the market values of the investments held, the Company's net asset value per share as at 2 April 2009, the latest practicable date before the publication of these financial statements, was 285.32p per share, a decrease of 6.8% from the net asset value per share at the balance sheet date.

In accordance with FRS 21 'Event after the balance sheet date', changes in asset prices after the balance sheet date constitute a non-adjusting event as they do not relate to conditions that existed at the balance sheet date. Accordingly it is not appropriate to reflect any financial effect of these changes in asset prices in the balance sheet as at 31 January 2009.

19. Reconciliation of Return on Ordinary Activities before Finance Costs and Taxation to Net Cash Flow from Operating Activities

	2009 £	2008 £
Return before finance costs and taxation	(159,174,822)	(46,768,603)
Add: Special dividends credited to capital	–	8,180,603
Add: Net losses on investments at fair value	189,593,060	72,106,540
	30,418,238	**33,518,540**
(Increase) decrease in debtors	(2,328,170)	224,620
Decrease in creditors	(225,573)	(65,211)
Net cash inflow from operating activities	**27,864,495**	**33,677,949**

20. Reconciliation of Net Cash Flow to Movement in Net Debt

(i) Analysis of changes in net debt

	Cash £	Stepped and Fixed Rate Loans £	5.875% Secured Bonds 2029 £	4% Perpetual Debenture Stock £	3.65% Preference Stock £	Net Debt £
At 1 February 2008	5,945,385	(81,787,410)	(29,073,381)	(1,375,000)	(1,178,000)	(107,468,406)
Movement in year	8,565,635	(38,309)	(20,990)	–	–	8,506,336
At 31 January 2009	**14,511,020**	**(81,825,719)**	**(29,094,371)**	**(1,375,000)**	**(1,178,000)**	**(98,962,070)**

(ii) Reconciliation of net cash flow to movement in net debt

	2009 £	2008 £
Net cash inflow (outflow)	8,565,635	(1,057,716)
(Increase) decrease in long term loans	(59,299)	134,289
Movement in net funds	**8,506,336**	**(923,427)**
Net debt brought forward	(107,468,406)	(106,544,979)
Net debt carried forward	**(98,962,070)**	**(107,468,406)**

Notes to the Financial Statements for the year ended 31 January 2009

21. Financial Risk Management Policies and Procedures

The Company invests in equities and other investments in accordance with its investment objective as stated on page 2. In pursuing its investment objective, the Company is exposed to certain inherent risks that could result in either a reduction in the Company's net assets or a reduction in the net return available for distribution by way of dividends.

The main risks arising from the Company's financial instruments are market risk (price and yield), liquidity risk and credit risk. The Directors determine the objectives and agree policies for managing each of these risks, as set out below. The Investment Manager, in close co-operation with the Directors, implements the Company's risk management policies. These policies have remained substantially unchanged during the current and preceding year.

Market Risk

The Investment Manager assesses exposure to market risk when making each investment decision, and monitors the risk on the investment portfolio on an ongoing basis. Market risk comprises market risk (price and yield), foreign currency risk and interest rate risk.

(i) Market Price Risk

Market price risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the Company might suffer through holding market positions in the face of price movements. A schedule of the Company's listed holdings is shown on page 11.

Falls in stock market valuations lead to changes in gearing ratios. The Board's procedure for monitoring the gearing of the Company is set out in Note 22 on page 50. This takes into account the Investment Manager's view on the market, covenant requirements and the future prospects of the Company's performance.

Market price risk sensitivity

The value of the Company's listed equities (i.e., fixed asset investments, excluding unlisted equities) which were exposed to market price risk as at 31 January 2009 was as follows:

	2009 £	2008 £
Listed equity investments held at fair value through profit or loss	411,768,166	608,423,542

The following table illustrates the sensitivity of the return and the net assets to an increase or decrease of 20% (2008: 20%) in the fair values of the Company's listed equities. This level of change is considered to be reasonably possible based on observation of market conditions in the year. The sensitivity analysis is based on the impact of a change to the value of the Company's listed equity investments at each balance sheet date and the consequent impact on the investment management fees for the year, with all other variables held constant.

	2009 20% Increase in fair value £	2009 20% Decrease in fair value £	2008 20% Increase in fair value £	2008 20% Decrease in fair value £
Revenue return				
Investment management fees	(100,883)	100,883	(149,064)	149,064
Capital return				
Net gains (losses) on investments at fair value	82,353,633	(82,353,633)	121,684,708	(121,684,708)
Investment management fees	(187,355)	187,355	(276,833)	276,833
Change in net return and net assets	**82,065,395**	**(82,065,395)**	**121,258,811**	**(121,258,811)**

Management of market price risk

The Directors meet regularly to consider the asset allocation of the portfolio in order to minimise the risk associated with particular industry sectors. A dedicated Investment Manager has the responsibility for monitoring the existing portfolio selection in accordance with the Company's investment objectives and to ensure that individual stocks meet an acceptable risk reward profile.

(ii) Market Yield Risk

Market yield risk arises from the uncertainty about the Company's ability to maintain its income objectives due to a systemic decline in corporate dividend levels.

Notes to the Financial Statements for the year ended 31 January 2009

Management of market yield risk

The Directors regularly review the current and projected yield of the investment portfolio, and discuss with the Investment Manager the extent to which it will enable the Company to meet its investment income objective.

(iii) Foreign Currency Risk

Foreign currency risk is the risk of the movement in the value of overseas financial instruments as a result of fluctuations in exchange rates.

Management of foreign currency risk

The Company invests predominantly in UK listed equities and has no significant exposure to currencies other than sterling (2008 – no significant exposure).

Any income denominated in foreign currencies is converted into sterling on receipt. The Company does not use financial instruments to mitigate the currency exposure in the period between the time that income is included in the financial statements and its receipt.

(iv) Interest Rate Risk

Interest rate risk is the risk of movement in the value of financial instruments as a result of fluctuations in interest rates.

Interest Rate Exposure

The table below summarises the financial assets and financial liabilities whose values are directly affected by changes in interest rates.

	2009 Fixed rate interest £	2009 Floating rate interest £	2009 Nil interest £	2009 Total £	2008 Fixed rate interest £	2008 Floating rate interest £	2008 Nil Interest £	2008 Total £
Financial assets	–	14,511,020	411,795,591	426,306,611	–	5,945,385	608,450,967	614,396,352
Financial liabilities	(113,473,090)	–	–	(113,473,090)	(113,413,791)	–	–	(113,413,791)
Net Financial (Liabilities) Assets	**(113,473,090)**	**14,511,020**	**411,795,591**	**312,833,521**	**(113,413,791)**	**5,945,385**	**608,450,967**	**500,982,561**
Short-term debtors and creditors				(1,970,515)				5,204,652
Net Assets per Balance Sheet	**(113,473,090)**	**14,511,020**	**411,795,591**	**314,804,036**	**(113,413,791)**	**5,945,385**	**608,450,967**	**506,187,213**

As at 31 January 2009, the interest rates received on cash balances or paid on bank overdrafts was approximate to 1.00% and 2.35% per annum respectively (2008 – 5.00% and 6.35% per annum).

The fixed rate interest bearing liabilities bear the following coupon and effective rates as at 31 January 2009 and 31 January 2008.

	Maturity date	Amount borrowed £	Coupon Rate	Effective rate since inception*
First Debenture Finance PLC ('FDF') – Loan Notes and Bonds	02/01/18	25,667,599	14.75%	11.28%
Fintrust Debenture PLC ('Fintrust') – Original Loan	20/11/23	30,000,000	9.25125%	9.51%
Fintrust Debenture PLC ('Fintrust') – New Loan	20/11/23	12,000,000	9.25125%	6.00%
5.875% Secured Bonds 2029	20/12/29	30,000,000	5.875%	6.23%
4% Perpetual Debenture Stock	n/a	1,375,000	4.00%	4.00%
3.65% Cumulative Preference Stock	n/a	1,178,000	3.65%	3.65%
		100,220,599		

* The effective rates are calculated in accordance with FRS 26 'Financial Instruments: Recognition and Measurement' as detailed in the Statement of Accounting Policies.

The details in respect of the above loans have remained unchanged since the previous accounting period.

Notes to the Financial Statements for the year ended 31 January 2009

The weighted average effective rate of the Company's fixed interest bearing liabilities (excluding the 4% Perpetual Debenture Stock and the 3.65% Cumulative Preference Stock) is 8.54% (2008 – 8.54%) and the weighted average period to maturity of these liabilities is 15.2 years (2008 – 16.2 years).

The above year end amounts are reasonably representative of the exposure to interest rates during the year, as the level of exposure does not change materially. Therefore the Company's net return and net assets, are not significantly affected by changes in interest rates.

Management of interest rate risk

The Company invests predominantly in equities, the values of which are not directly affected by changes in prevailing market interest rates. In the year to 31 January 2009, the Company held no fixed income securities. The Company's policy is to remain substantially fully invested and thus does not expect to hold significant cash balances, therefore the financial assets have minimal exposure to interest rate risk.

The Company finances its operations through a mixture of share capital, retained earnings and long term borrowings. Movement in interest rates will not have a material effect on the finance costs and financial liabilities of the Company as all the borrowings of the Company are subject to fixed rates of interest.

Liquidity risk

Liquidity risk relates to the capacity to meet liabilities as they fall due and is dependent on the liquidity of the underlying assets.

Maturity of financial liabilities

The contractual maturities of the financial liabilities at 31 January 2009, based on the earliest date on which payment can be required to be made was as follows:

2009	Three months or less £	Between three months and one year £	Between one year and five years £	More than five years £	Total £
Creditors – Amounts falling due within one year					
Debt interest due within one year	–	1,319,267	–	–	1,319,267
Other creditors	587,434	–	–	–	587,434
Creditors – Amounts falling due after more than one year					
Debt due after more than one year	–	–	–	113,473,090	113,473,090
	587,434	**1,319,267**	**–**	**113,473,090**	**115,379,791**

2008	Three months or less £	Between three months and one year £	Between one year and five years £	More than five years £	Total £
Creditors – Amounts falling due within one year					
Debt interest due within one year	4,180	1,312,099	–	–	1,316,279
Other creditors	813,007	–	–	–	813,007
Creditors – Amounts falling due after more than one year					
Debt due after more than one year	–	–	–	113,413,791	113,413,791
	817,187	**1,312,099**	**–**	**113,413,791**	**115,543,077**

Management of liquidity risk

Liquidity risk is not significant as the Company's assets mainly comprise realisable securities, which can be sold to meet funding requirements if necessary. Short term flexibility can be achieved through the use of overdraft facilities, where necessary. As at the 31 January 2009, the Company has an undrawn committed borrowing facility of £10 million (2008 – £10 million).

Notes to the Financial Statements for the year ended 31 January 2009

Credit Risk

Credit risk is the risk of default by a counterparty to discharge its obligations under transactions that could result in the Company suffering a loss.

Management of credit risk

Outstanding settlements are subject to credit risk. Credit risk is mitigated by the Company through its decision to transact with counterparties of high credit quality. The Company only buys and sells investments through brokers which are approved counterparties, thus minimising the risk of default during settlement. The credit ratings of brokers are reviewed quarterly by the Investment Manager.

Stock lending transactions are carried out with a number of counterparties, whose credit standard is reviewed periodically by the Investment Manager, and the limits are set on the amount that may be lent to any one counterparty. Collateral details can be found in note 8. None of the Company's financial assets or liabilities are secured by collateral or other credit enhancements.

The Company is also exposed to credit risk through the use of banks for its cash position. Bankruptcy or insolvency of banks may cause the Company's rights with respect to cash held by banks to be delayed or limited. The Company's cash balances are held by HSBC Bank plc, rated Aa1 by Moody's rating agency. The Directors believe the counterparty the Company has chosen to transact with is of high credit quality, therefore the Company has minimal exposure to credit risk.

The table below summarises the credit risk exposure of the Company as at 31 January:

	2009 £	2008 £
Debtors		
Outstanding settlements	–	5,784,892
Accrued income	2,662,531	1,493,835
Other debtors	1,214,685	55,211
Cash at bank	14,511,020	5,945,385
	18,388,236	**13,279,323**

Fair Values of Financial Assets and Financial Liabilities

With the exception of those financial liabilities measured at amortised cost, the financial assets and financial liabilities, are either carried at their fair value or the balance sheet amount is a reasonable approximation of their fair value. The financial liabilities measured at amortised cost have the following fair values*:

	2009 Book value £	2009 Fair value £	2008 Book value £	2008 Fair value £
Stepped Rate Interest Loan	36,335,798	49,394,452	36,137,051	48,389,752
Fixed Rate Interest Loan	46,587,194	60,852,470	46,741,603	57,709,806
5.875% Secured Bonds 2029	29,302,615	31,156,210	29,280,486	30,813,248
4% Perpetual Debenture Stock	1,388,750	1,095,498	1,388,750	1,111,697
3.65% Cumulative Preference Stock	1,178,000	786,668	1,178,000	786,668
	114,792,357	**143,285,298**	**114,725,890**	**138,811,171**

The net asset value per Ordinary Share, with the debt at fair value is 278.5p (2008 – 468.9p).

* The fair value has been derived from the closing market value of the debt and accrued interest as at 31 January 2009 and 31 January 2008.

Hedging Instruments

At the year end, the Company had no hedging arrangements in place (2008 – nil). The Company does not enter into speculative interest contracts.

22. Capital Management Policies and Procedures

The Company's objective is to provide an above average level of income and income growth together with long term capital growth.

The Company's capital at 31 January comprises:

	2009 £	2008 £
Debt		
Creditors – Amounts falling due within one year	1,319,267	1,316,279
Creditors – Amounts falling due after more than one year	113,473,090	113,413,791
	114,792,357	**114,730,070**
Equity		
Called up Share Capital	25,703,366	25,703,366
Share Premium Account and other reserves	289,100,670	480,483,847
	314,804,036	**506,187,213**
Total Capital	**429,596,393**	**620,917,283**
Debt as a percentage of total capital	**26.7%**	**18.5%**

The Board, with the assistance of the Investment Manager, monitors and reviews the broad structure of the Company's capital on an ongoing basis. The level of gearing is monitored, taking into account the Investment Manager's view on the market, covenant requirements and the future prospects of the Company's performance. Capital management also involves reviewing the difference between the net asset value per share and the share price (i.e. the level of share price discount or premium) to assess the need to repurchase shares for cancellation.

The Company is subject to several externally imposed capital requirements under which the total borrowings shall not exceed the adjusted capital, the banks borrowings under the overdraft facility are not to exceed £10m, and as a public company the minimum share capital is £50,000. These are measured in accordance with the policies used in the annual financial statements.

The Company's objective, policies and processes for managing capital are unchanged from the preceding accounting period, and the Company has complied with them.

Investor Information & Contact Details

The Manager

Allianz Global Investors is the marketing name of RCM (UK) Limited, Allianz Group's regulated UK fund management company, which is authorised and regulated by the Financial Services Authority.

Allianz Global Investors is one of the largest fund managers in the World, and as at 31 December 2008, had combined assets of £824 billion under management. Through its predecessors, it has a heritage of investment trust management expertise in the UK stretching back to the nineteenth century and had £0.9 billion assets under management in a range of investment trusts as at 31 December 2008.

Results

Half-year Report posted to shareholders in September
Annual Financial Report posted to shareholders in April
Annual General Meeting held in May

Ordinary Dividends

First quarterly paid in August
Second quarterly paid in November
Third quarterly paid in February
Final usually paid in May

Ordinary dividends paid by the Company carry a tax credit at a rate of 10%. The credit discharges the tax liability of shareholders subject to income tax at less than the higher rate. Shareholders liable to pay tax at the higher rate will have further tax to pay.

Preference Dividends

Payable half-yearly on 1 August and 1 February

Payment of Dividends Direct to Bank Accounts

Cash dividends will be sent by cheque to first-named shareholders at their registered address together with a tax voucher. Dividends may be paid directly into shareholders' bank accounts. Details of how this may be arranged can be obtained from the Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Dividends mandated in this way are paid via BACS (Bankers' Automated Clearing Service). Tax vouchers will then be sent directly to shareholders at their registered address unless other instructions have been given.

Dividend Reinvestment Plan for Ordinary Shareholders

A Dividend Reinvestment Plan is operated by the Company's Registrars, Capita Registrars. The Plan offers Ordinary Shareholders the opportunity to use their cash dividend to buy further shares in the Company under a special low-cost dealing arrangement. Capita will enclose a copy of the Terms and Conditions and a personalised application form with each future dividend payment.

Market and Portfolio Information

The Company's Ordinary Shares are listed on the London Stock Exchange. The market price, price range, gross yield and net asset value are shown daily in The Financial Times and The Daily Telegraph. The net asset value of the Ordinary Shares is calculated daily and published through the London Stock Exchange Regulatory News Service. The geographical spread of investments and ten largest holdings are also published monthly by the London Stock Exchange Regulatory News Service. They are also available to any enquirer of Allianz Global Investors, either via Investor Services on 0800 317 573 or on the Manager's website: www.allianzglobalinvestors.co.uk.

Share Prices

The share price for 31 January 2009 was 282.0p.

Website

Further information about the The Merchants Trust PLC is available on the Manager's website:
www.allianzglobalinvestors.co.uk.

Investor Information & Contact Details

Association of Investment Companies (AIC)

The Company is a member of the AIC, the trade body of the investment trust industry, which provides a range of literature including fact sheets and a monthly statistical service. Copies of these publications can be obtained from the AIC, 9th Floor, 24 Chiswell Street, London EC1Y 4YY, or at www.theaic.co.uk.

AIC Category: UK Growth and Income.

Investing in the Company

Former Allianz Global Investors Investment Trust ISA, PEP and Share Plan wrapper investors had the opportunity to transfer to Alliance Trust Savings Plan ("ATS") in early 2008. Information on investing in the shares of the Company is available from the Investment Manager's Investor Helpline on 0800 317573 or from the Manager's website: www.rcm.com/investmenttrusts, or from Alliance Trust Savings Customer Services Department on 01382 573737 or e-mail: contact@alliancetrust.co.uk.

Capita Registrars – Share Dealing Services

Capita Registrars, the Company's Registrars, operate an on-line and telephone dealing facility for UK resident shareholders with share certificates. Stamp duty may also be payable on purchases. For further information on these services please contact: www.capitadeal.com (on-line dealing) or 0871 664 0454 (telephone dealing) (Calls cost 10p per minute plus network extras).

Capita Registrars offer shareholders a free on-line service called The Share Portal, enabling shareholders to access a comprehensive range of shareholder related information. Through The Share Portal, shareholders can; view their current and historical shareholding details; obtain an indicative share price and valuation; amend address details; view details of dividend payments; and apply for dividends to be paid directly to a bank or to change existing bank details. Shareholders can access these services at www.capitaregistrars.com and selecting Share Portal (Shareholders) from the drop down menu, or alternatively via the Portals: Quick Links, and selecting Share Portal. Shareholders will need to register for a Share Portal Account by completing an on-screen registration form. An email address is required.

Shareholders' Enquiries

Capita Registrars are the Company's registrars and maintain the share register. In the event of queries regarding their holdings of shares, lost certificates, dividend cheques, registered details, etc., shareholders should contact them on 0871 664 0300 (calls cost 10p per minute plus network charges) or, if telephoning from overseas, +44 20 8639 3399. Changes of name and address must be notified to the Registrars in writing.

Any general enquiries about the Company should be directed to the Company Secretary, The Merchants Trust PLC, 155 Bishopsgate, London EC2M 3AD.
Telephone: 020 7065 1513. Email: kirsten.salt@uk.rcm.com

Analysis of Share Register

	Shareholder Accounts				Ordinary Shares held			
	Number		%		000's		%	
	2009	2008	2009	2008	2009	2008	2009	2008
Private holders	7,571	7,860	65.4	64.7	19,885	20,580	19.3	20.0
Nominees	3,718	3,973	32.2	32.7	77,988	77,267	75.9	75.2
Limited Companies	155	164	1.3	1.4	2,464	2,195	2.4	2.1
Investment Trusts and Funds	43	51	0.4	0.4	516	559	0.5	0.5
Bank and Bank Nominees	9	9	0.1	0.1	1,577	1,778	1.5	1.7
Insurance Companies	10	12	0.1	0.1	54	65	0.1	0.1
Pension Funds	4	4	0.0	0.0	20	20	0.0	0.0
Other holders	63	70	0.5	0.6	309	349	0.3	0.4
	11,573	**12,143**	**100.0**	**100.0**	**102,813**	**102,813**	**100.0**	**100.0**

Based on an analysis of the Ordinary Share register at 27 March 2009 (2008 – 31 March).

Investor Information & Contact Details

CREST Proxy Voting

Shares held in uncertificated form (i.e., in CREST) may be voted through the CREST Proxy Voting Service in accordance with the procedures set out in the CREST manual.

Manager and Advisers

Fund Manager

RCM (UK) Limited
Represented by Simon Gergel, Portfolio Manager, and
Simon White, Head of Investment Trusts

Secretary and Registered Office

Kirsten Salt BA (Hons) ACIS
155 Bishopsgate
London EC2M 3AD
Telephone: 020 7065 1513
Email: kirsten.salt@uk.rcm.com

Registered Number 28276

Registrars and Transfer Office

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 charges)
Telephone (if calling from overseas): +44 20 8639 3399
Email: ssd@capitaregistrars.com

Independent Auditors

PricewaterhouseCoopers LLP
Hay's Galleria
1 Hay's Lane
London SE1 2RD

Bankers

HSBC Bank
Barclays Bank

Stockbroker

JPMorgan Cazenove

Legal Advisers

Herbert Smith LLP

Allianz Global Investors

Telephone: 0800 317 573 or
www.allianzglobalinvestors.co.uk.

Notice of Meeting

Notice is hereby given that the Annual General Meeting of The Merchants Trust PLC will be held at 20 Moorgate, London EC2R 6DA, on Tuesday 12 May 2009 at 12.00 noon to transact the following business.

Routine Business

1 To receive and adopt the Report of the Directors and the Financial Statements for the year ended 31 January 2009 together with the Auditors' Report thereon.

2 To declare a final dividend of 5.6p per Ordinary Share.

3 To re-elect Mr H. A. Stevenson as a Director.

4 To re-elect Mr R. A. Barfield as a Director.

5 To approve the Directors' Remuneration Report.

6 To re-appoint PricewaterhouseCoopers LLP as Auditors of the Company, to hold office until the conclusion of the next general meeting at which financial statements are laid before the Company.

7 To authorise the Directors to determine the remuneration of the Auditors.

Special Business

To consider and if thought fit to pass the following resolutions. Resolution 8 will be proposed as an Ordinary Resolution and Resolutions 9 and 10 as Special Resolutions:

8 That for the purposes of Section 80 of the Companies Act 1985 the Directors be generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (within the meaning of the said Section) up to an aggregate nominal amount of £8,567,788 provided that:

(i) the authority granted shall expire five years from the date upon which this Resolution is passed but may be revoked or varied by the Company in general meeting and may be renewed by the Company in general meeting for a further period not exceeding five years; and

(ii) the authority shall allow and enable the Directors to make an offer or agreement before the expiry of that authority which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of any such offer or agreement as if that authority had not expired.

9 That the Directors be empowered in accordance with Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the Act) for cash pursuant to the authority conferred by Resolution 10 as if sub-section (1) of Section 89 of the Act did not apply to any such allotment provided that:

(i) the power granted shall be limited to the allotment of equity securities wholly for cash up to an aggregate nominal amount of £2,570,336;

(ii) the power granted shall (unless previously revoked or renewed) expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution; and

(iii) the said power shall allow and enable the Directors to make an offer or agreement before the expiry of that power which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if that power had not expired.

10 That the Company be and is hereby generally and unconditionally authorised in accordance with Section 166 of the Companies Act 1985 (the 'Act') to make market purchases (within the meaning of Section 163 of the Act) of Ordinary Shares of 25p each in the capital of the Company ('Ordinary Shares'), provided that:

(i) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 15,411,738;

(ii) the minimum price which may be paid for an Ordinary Share is 25p;

Notice of Meeting

(iii) the maximum price which may be paid for an Ordinary Share is an amount equal to 105% of the average of the middle-market quotations for an Ordinary Share taken from the London Stock Exchange Official List for the five business days immediately preceding the day on which the Ordinary Share is purchased or such other amount as may be specified by the London Stock Exchange from time to time;

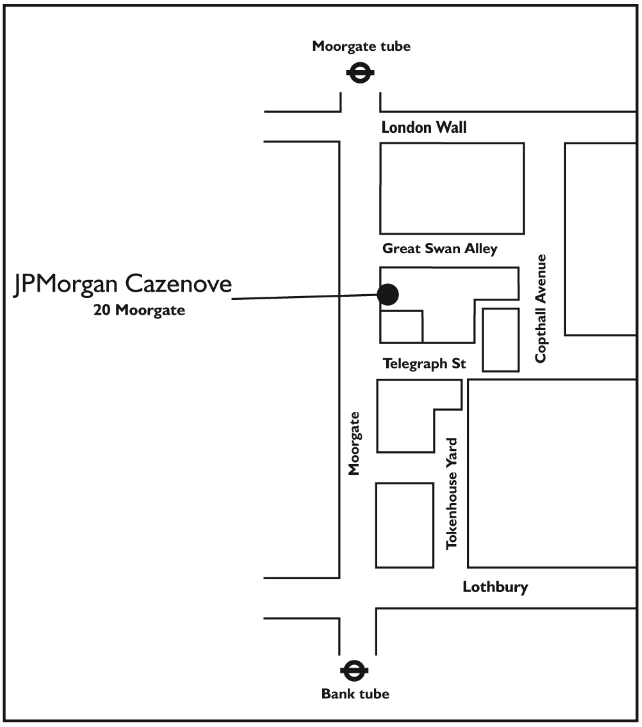
(iv) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2010 or, if earlier, on the expiry of 18 months from the passing of this resolution, unless such authority is renewed prior to such time; and

(v) the Company may make a contract to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary Shares pursuant to any such contract.

155 Bishopsgate
London EC2M 3AD
6 April 2009

By Order of the Board
K. J. Salt
Secretary

Annual General Meeting Venue



Notice of Meeting

Notes:

1. Members entitled to attend and vote at this Meeting may appoint one or more proxies to attend and, on a poll, vote in their stead. The proxy need not be a Member of the Company. Duly completed forms of proxy must reach the office of the Registrars at least 48 hours before the Meeting. A form of proxy is provided with the Annual Financial Report. Completion of the enclosed form of proxy does not preclude a Member from attending the Meeting and voting in person.
2. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.
3. Persons nominated to receive information rights under Section 146 of the Act who have been sent a copy of this notice of meeting are hereby informed, in accordance with Section 149(2) of the Act, that they may have a right under an agreement with the registered member by whom they were nominated to be appointed, or to have someone else appointed, as a proxy for this meeting. If they have no such right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the member as to the exercise of voting rights.

   Nominated persons should contact the registered member by whom they were nominated in respect of these arrangements.
4. Shares held in uncertificated form (i.e., in CREST) may be voted through the CREST Proxy Voting Service in accordance with the procedures set out in the CREST manual.
5. To be entitled to attend and vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), Members must be entered on the Company's Register of Members at 6p.m. on 10 May 2009 ('the specified time'). If the Meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original Meeting, that time will also apply for the purpose of determining the entitlement of Members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned Meeting. If, however, the Meeting is adjourned for a longer period then, to be so entitled, Members must be entered on the Company's Register of Members at the time which is 48 hours before the time fixed for the adjourned Meeting or, if the Company gives notice of the adjourned Meeting, at the time specified in that notice.
6. Contracts of service are not entered into with the Directors, who hold office in accordance with the Articles of Association.

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