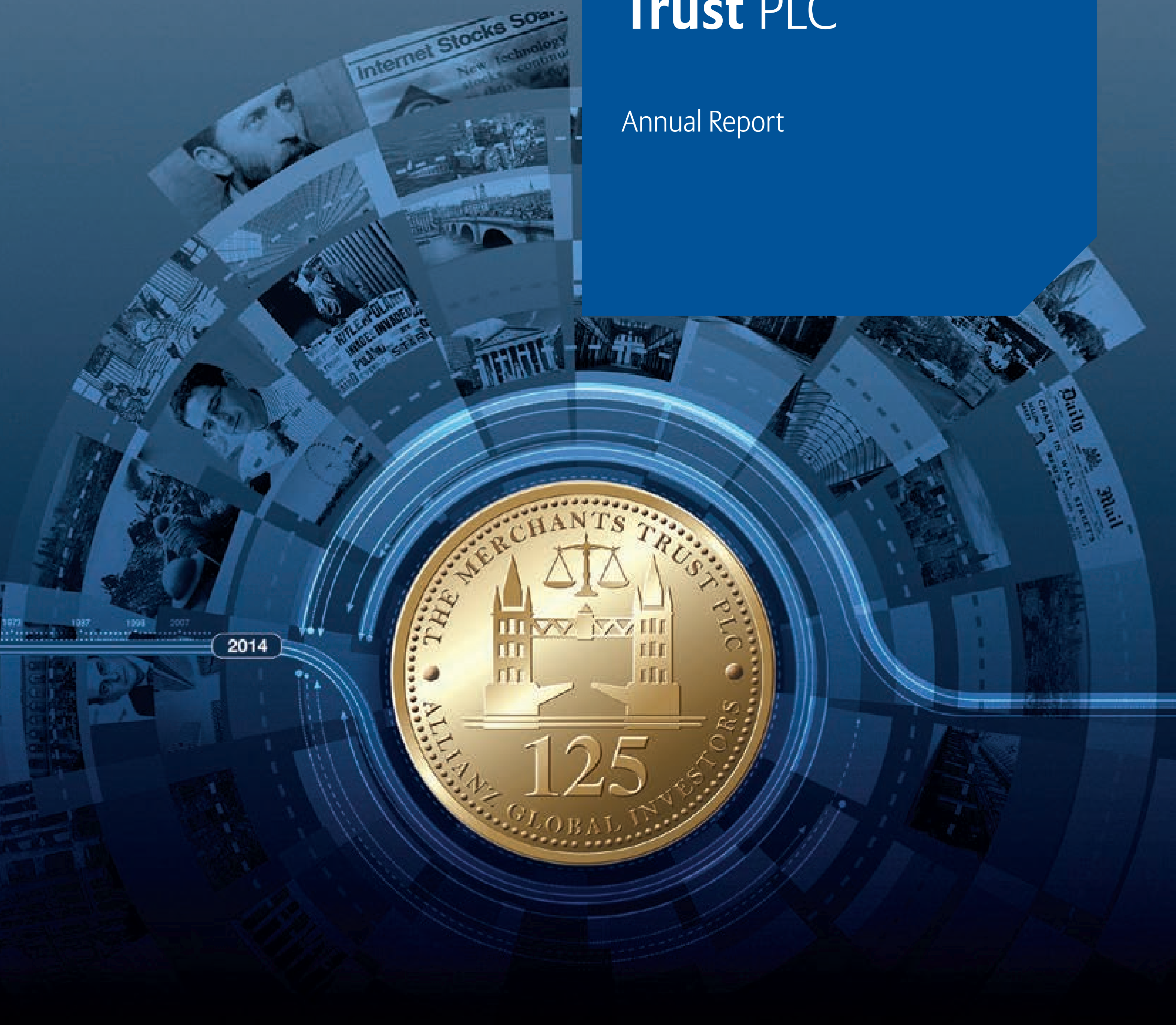
31 January 2014

The **Merchants Trust** PLC

Annual Report



125TH ANNIVERSARY

1889 - 2014

Allianz Global Investors

www.merchantstrust.co.uk

Contents

Marking 125 years of The Merchants Trust

2014 marks 125 years since The Merchants Trust was incorporated by Robert Benson & Co in London on 16th February 1889. Such an occasion allows us the opportunity to look back at the early days of the company as well as its ability to adapt to the needs of investors ever since.

The company was set up to invest in the growth industries of the late 19th century. As such, it invested primarily in North American railway expansion in its early years, as well as in other continents, countries and industries. This approach proved robust enough for the company to survive various panics in its early years when it experienced all manner of market conditions but still managed to pay out to its founding investors healthy and gradually increasing dividends.

In order to celebrate the company's 125th anniversary, we have published an historical booklet which we have been delighted to distribute to all shareholders. It provides a fascinating glimpse – and a wealth of information - about the company's history and introduces the characters who have been pivotal to Merchants' ability to successfully navigate market conditions, conflicts and crises over time.

Although the company's core investments have changed over its 125 years, there has been no dramatic structural change. We continue to look to hold a portfolio of high yielding stocks that is diversified across industries. The companies we are investing in now don't tend to have a 125 year history so the real benefits of changing the portfolio gradually have become apparent over the very long term.

The company has stood the test of time, perhaps because the principles which have sustained it remain at its core. The fundamental aim of providing investors with healthy income as well as capital growth remains as relevant today as it has been at any time since 1889.

Company Overview

Throughout its 125 year history, Merchants has provided investors with an opportunity to benefit from investment in a diversified portfolio of leading companies with strong balance sheets and the potential to pay attractive dividends.

Merchants is governed by an independent board of directors and has no employees. Like other investment companies, it outsources management and administration to an investment management company – Allianz Global Investors – and other third party service providers to provide shareholders with an efficient, competitive, cost-effective way to gain wide investment exposure through a single investment vehicle.

The company's shares are recognised by the Association of Investment Companies (AIC) as suitable for ordinary retail investors.

Financial Highlights

Share Price 2014 491.5p 2013 412.7p **+19.1%**

Net asset value per ordinary share*	Earnings per ordinary share	Dividend	Yield
486.8p	24.2p	23.6p	4.7%
2013 434.1p	2013 22.9	2013 23.2p	2013 5.6%
+12.1%	**+5.7%**	**+1.7%**	

* Debt at market value

Investment Policy

The Merchants Trust aims to provide an above average level of income and income growth together with long term capital growth 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 Equity Income sector. Performance is benchmarked against the FTSE 100 Index, reflecting the emphasis within the portfolio.

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, the gearing has been in the form of long term, fixed-rate debentures. The board monitors the level of gearing and makes decisions on the 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 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 aims to achieve a spread of investments, with no single investment representing more than 15% of assets. The company seeks to diversify its portfolio into at least five market sectors, with no one sector comprising more than 35% of the portfolio.

Chairman's Statement

Dear Shareholder

We are proud to celebrate the 125th anniversary of The Merchants Trust in 2014. Although the present day Merchants has a very different investment approach to the one of 1889, its aim of delivering growth in both income and capital for the ordinary investor is remarkably similar to the original strategy devised by the leading financiers of the late 19th century.

Results

During 2013, the net asset value per share with debt at market value increased by 12.1% or by 17.5% including dividends. Over the year, the company's share price rose by 19.1% from 412.7p to 491.5p. On a total return basis the company's share price including dividends increased by 24.8%. It is pleasing to note that the Trust's net asset value with debt at market has outperformed the FTSE 100 Index over the past three years by 8.5%. As at 31 March 2014, the Trust's ordinary shares yielded 4.7% compared with the yield on the FTSE 100 Index of 3.6%.

The investment portfolio produced a capital return of 9.1%, ahead of the 3.7% return on the FTSE 100 Index. Including income, the total return of the investment portfolio was 14.0% which was ahead of the 7.6% total return on the FTSE 100 Index.

The company has continued to benefit from the "pull to par" as the company's debt at market value has decreased. There is more detail on the major contributors to our performance in our Investment Manager's Review starting on page 16 of the annual report.

Net Revenue Return and Dividends

Net Revenue Return per share rose by 5.7% to 24.2p. The board is recommending a final ordinary dividend of 5.9p per share, payable on 23 May 2014 to shareholders on the register on 25 April 2014. This payment would give a total of 23.6p for the year, an increase of 1.7% over the total for the previous year. This year we have been able to transfer £860,898 to reserves. As at 31 January 2014 and after providing for this transfer and the dividend payment, the trust's revenue reserves amounted to £12,151,290 (11.7p per share).

The trust has now raised the annual dividend for 32 consecutive years. It is particularly pleasing that the dividend is covered by earnings once again. Since 2010, in the wake of the Global Financial Crisis and BP's dividend cut, the board has used dividend reserves to supplement income. However the trust's income per share has now recovered to the point where it is covering the dividend again. This has allowed Merchants to pay a slightly higher level of dividend growth for the year whilst still tucking away a modest amount into reserves.

We will continue to accrete reserves and under normal circumstances we would expect to hold one year's dividend in reserves.

The outlook for dividend growth in the stock market is reasonable. However with several large companies paying dividends in US dollars, the recent strength of the pound may cause a slight drag on income growth when translating dividends back to Sterling.

Chairman's Statement *(continued)*

Strategy and the Strategic Report

The annual report this year contains a Strategic Report, starting on page 10.

At our annual strategy day we met with our advisers and considered our long term performance in relation to our sector, peer group and benchmark. We also looked at the macro environment; our investment objective; gearing; yield; reserves policies and structure. We examined our stewardship and the support from the manager. We also looked at the future of Merchants and the ways of growing the size of the company.

Issues of new shares

During the year we have seen the company's share price trade at a premium to the net asset value which has enabled Merchants to issue new shares. Our policy is to issue shares at a premium to net asset value, cum income with debt at market value, at a price that is not dilutive to existing shareholders, to meet natural demand in the market. During the year we have issued 450,000 new shares and a further 500,000 since the year end, in total representing 9.2% of the 10,321,346 shares authorised for allotment for cash by shareholders at last year's annual general meeting.

Derivatives

As set out in the previous report, we have continued our policy of selectively writing call options on a limited number of the trust's holdings. Writing options has provided helpful additional income in a period where revenues have been under pressure. At no point in the year did the exposure to derivatives exceed 6% of the portfolio. A more detailed explanation is set out in the Investment Manager's Review.

Marketing and the Retail Distribution Review

Following the changes to the way individuals can invest in funds brought about by the Retail Distribution Review, we have continued to boost the marketing of The Merchants Trust to potential investors in the company's shares, with both online and press campaigns. This strategy has been extremely successful in raising the company's profile, with the 125th anniversary generating considerable attention. Of recent note has been a positive article in the 23rd February 2014 edition of The Mail on Sunday entitled 'Victorian trust reaches for the stars investing in new satellites'. This article highlighted the company's history and its present day investment remit. Such heightened awareness of the company's characteristics and long term performance record is welcome news as it can create sustained and ongoing demand for the company's shares, which is to the benefit of all the company's shareholders.

As part of the overall marketing strategy we have continued to develop our dedicated website www.merchantstrust.co.uk. We see this as the company's 'shop window' and regularly add new content. Most recently, we have introduced a Video Centre in order to build an archive of filmed material. As a board we have recently produced a short film that we hope will be informative for our investors. In it, we discuss the board's role and how we interact with the investment management team, on behalf of shareholders. The film is available on the company's home page, where you will also be able to access an interactive version of this annual report.

The trust has now raised the annual dividend for 32 consecutive years. It is particularly pleasing that the dividend is covered by earnings once again.

Chairman's Statement *(continued)*

The economy is showing signs of recovery although this recovery is fragile with high levels of consumer and government debt and a mixed picture overseas.

AIFMD

The Alternative Investment Fund Managers Directive comes into effect in July 2014. This will introduce additional regulatory oversight for investment trusts. We will be appointing an AIFM and a Depository under the requirements of the legislation.

Gearing

The company continues to have long term debt amounting to £111 million. This is all deployed in the market for investment purposes. At the end of the year our gearing level was 20.9% compared to 23.0% at the start of the year.

The Board

The current board has four directors and although it is a small board, as you will see from our biographies on page 30, the directors have a range of professional and industrial backgrounds and experience. We meet annually specifically to consider strategy with our managers and advisers, covering a variety of topics relevant to the company. More details can be found in the Strategic Report on page 11.

We are each standing for re-election this year and will continue to do this annually.

Annual General Meeting

The annual general meeting of the company will be held on Wednesday 21 May 2014 at 12.00 noon at Holborn Bars, 138-142 Holborn, London EC1N 2NQ and we look forward to seeing as many shareholders then as are able to attend.

Outlook

The economy is showing signs of recovery although this recovery is fragile with high levels of consumer and government debt and a mixed picture overseas. Over the last five years the stock market has been significantly re-rated from a very depressed level. However our managers are still able to identify strong businesses trading on attractive valuations. Merchants continues to invest in a diversified portfolio of higher yielding assets, with exposure to many different industries around the world. This broad strategy has served the Trust well in the last 125 years, through a wide variety of economic and market environments, and we believe is still appropriate for the future.

Simon Fraser

Simon Fraser
Chairman
2 April 2014

"We have continued to boost the marketing of The Merchants Trust to potential investors in the company's shares, with both online and press campaigns. This strategy has been extremely successful in raising the company's profile, with the 125th anniversary generating considerable attention. Of recent note has been a very positive article in the 23rd February 2014 edition of The Mail on Sunday."

The Mail
ON SUNDAY

PERSONAL FINANCE

FEBRUARY 23 • 2014

Victorian trust reaches for the stars investing in new satellites

FUND FOCUS

FINANCIALLY stretched households were handed a small dose of optimism last week when it was revealed that inflation had fallen to 1.9 per cent, just below the Bank of England's 2 per cent target.

Economic hurdles that have slowed the ever-rising cost of living have put more goods and services within the reach of ordinary people – the theory being that when inflation falls, people are more likely to spend money.

That should be good news for The Merchants Trust – consumer services make up a fifth of the fund. Since its launch 125 years ago, the make-up of the trust has changed considerably.

It had concentrated on the fixed-interest securities of railway companies in the Americas, with the rest in government securities and companies such as Castlemaine Brewery in Australia.

Now part of Allianz Global Investors, its attention has shifted to big UK firms paying a dividend. But according to the team behind the trust's success, the philosophy is the same as ever. This is to build capital return as well as generate income, and to offer investors the chance to benefit from the most prominent industries of the day.

Some of the trust's most recent gains came from Inmarsat, a UK firm that launched the first of its 'next generation' satellites with the aim of creating a global high-speed mobile broadband service, and cruise company Carnival.

However, the trust was let down by poor Christmas trading at Marks & Spencer and Sainsbury's.

Fund manager Simon Gergel says the 125-year milestone 'reminds us that investment is a long-term business'. He says: 'We continue to focus on buying into strong businesses on attractive valuations, with above average dividend yields.'

The trust has beaten the performance of its benchmark – the FTSE 100 Index – over one, three, five and ten years.

But it also invests in companies outside the UK's top 100, and over ten years has returned 174 per cent compared to the FTSE All-Share's 130 per cent, though some other investment trusts in the sector have exceeded that.

Tim Cockerill, of Bristol-based investment adviser Rowan Dartington, says: 'For the last 31 years it has raised its dividend every year, a feature often overlooked by investors. It's a good trust to tuck away and you should see performance continuing to be respectable over the long term.'

Laura Shannon

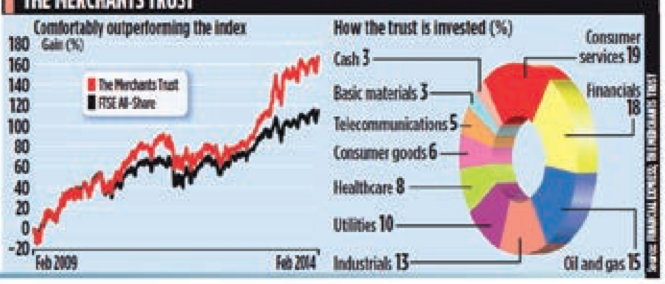
FACTS AT A GLANCE

SIZE AND RETURNS:
£557 million. One year, +28%; three years, +48%; five years, +173%.

MANAGER AND TENURE:
Simon Gergel since April 2006.

THE BIG RIVALS:
They include Finsbury Growth & Income Trust and Edinburgh Investment Trust.

HOW TO INVEST:
Shares can be bought via a stockbroker or an investment platform, for which there will be a fee plus stamp duty at 0.5%. The annual management charge is 0.35%.



LAUNCH PAD: Merchants Trust boss Simon Gergel

The Merchants Trust PLC

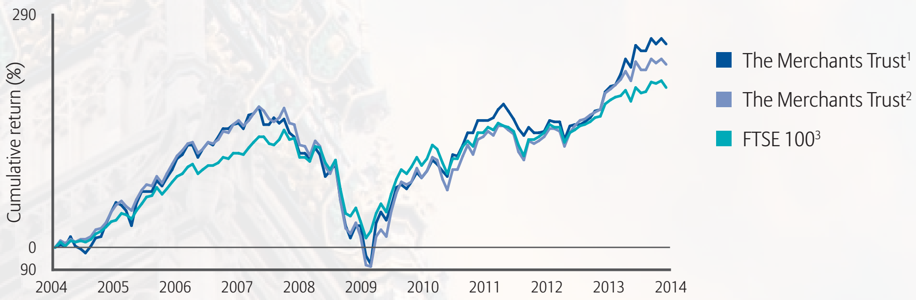
Strategic Report

"Merchants has paid increasingly higher dividends year-on-year for the last 32 years, from 4.2 pence in 1982 to 23.6 pence per share in 2014, providing shareholders with a growing source of income in the form of regular quarterly payments."

Simon Gergel
Fund Manager

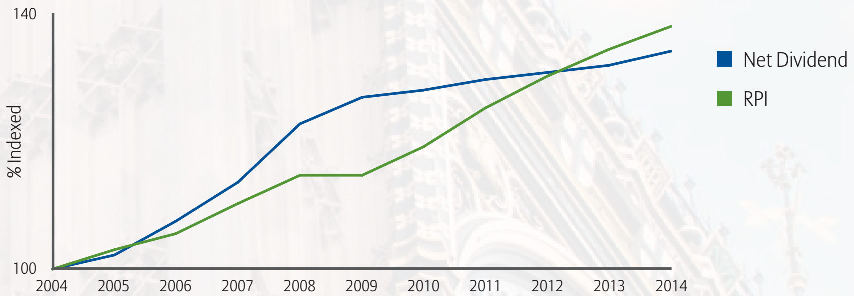
Performance Graphs

The Merchants Trust 10 Year Cumulative Return compared to FTSE 100 Index



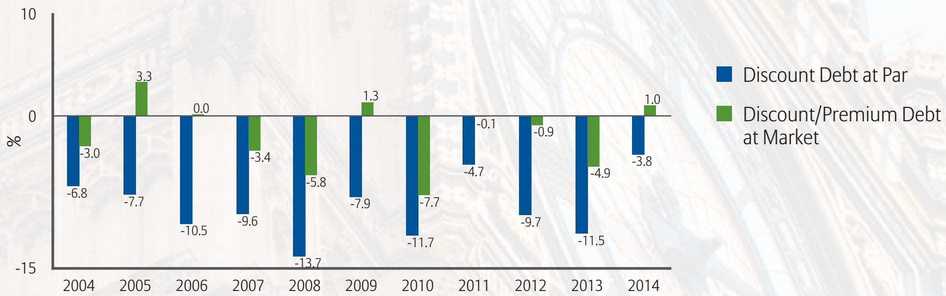
Source: Mellon Analyitical/AGI.

The Merchants Trust 10 Year Net Dividend Growth compared to inflation



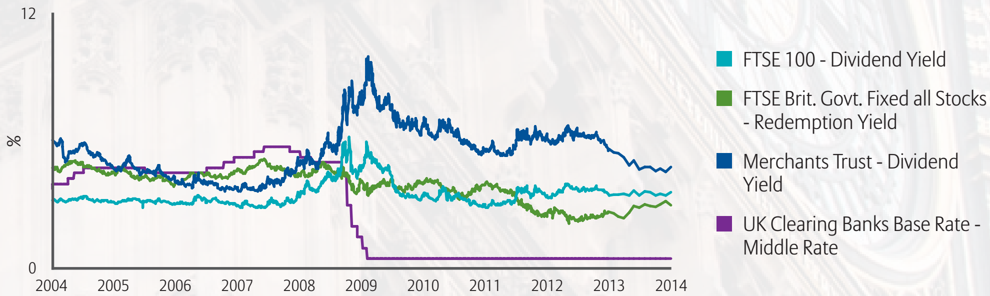
Source: AGI / Datastream.

The Merchants Trust 10 Year Discount/Premium to Net Asset Value as at 31 January



Source: AGI.

The Merchants Trust Dividend Yield compared to FTSE 100 Index, UK Gilt Yield and Cash



[1] The Merchants Trust (Share Price Total Return). [2] The Merchants Trust (Nav Total Return). [3] FTSE 100 (Total Return).
Source: Mellon Analyitical/AGI.

Performance – Review of the Year

Financial Summary

Revenue	For the year ended 31 January 2014	For the year ended 31 January 2013	% change
Income	£29,826,684	£28,312,659	+5.3
Net revenue return attributable to ordinary shareholders	£25,012,848	£23,631,722	+5.8
Net revenue return per ordinary share	24.2p	22.9p	+5.7
Ordinary dividends per ordinary share	23.6p	23.2p	+1.7

Assets	2014	2013	Capital return % change	Total return % change
Total assets less current liabilities	£640,144,245	£592,318,780	+8.1	-
Net assets (debt at par)	£529,478,058	£481,464,169	+10.0	-
Net assets (debt at market value)	£504,657,386	£448,049,458	+12.6	-
Net asset value per ordinary share (debt at par)	510.8p	466.5p	+9.5	+14.5%*
Net asset value per ordinary share (debt at market value)	486.8p	434.1p	+12.1	+17.5%*
Ordinary share price	491.5p	412.7p	+19.1	+24.8%
FTSE 100 Index	6,510.4	6,276.9	+3.7	+7.6%
Discount ordinary share price to net asset value	-3.8%	-11.5%	n/a	n/a
Premium/discount (debt at market value)	+1.0%	-4.9%	n/a	n/a
Ongoing charges †	0.6%	0.7%	n/a	n/a

* NAV total return reflects both the change in net asset value per ordinary share and the net ordinary dividends paid.
† The ongoing charges percentage is calculated in accordance with the explanation given on page 12.

Performance Attribution Analysis against FTSE 100 Index	Capital Return %	Total Return %
Return of Index	3.7	7.6
Relative return from portfolio	5.4	6.4
Return of portfolio	**9.1**	**14.0**
Impact of gearing on portfolio	2.3	2.3
Expenses charged to capital	-1.6	-1.6
Other	-0.3	-0.2
Change in net asset value per ordinary share	**9.5**	**14.5**

"The companies listed on the London Stock Exchange provide investors with a means to gain exposure to businesses across the globe whilst benefiting from the UK's leading corporate governance."

Simon Gergel
Fund Manager

Strategic Report

at 31 January 2014

Objectives

Our objective is to provide shareholders with an above average level of income and income growth together with capital growth over the longer term through investing in a portfolio of UK equities.

We measure our success in attaining this objective by comparing the performance of the portfolio against the performance of the FTSE 100 Index, over shorter and longer time periods. We also note how the yield on the company's shares compares with the yields in our peer group and the growth of the dividend itself against the retail price index in the UK.

A review of the company's business, activities and prospects is given in the Chairman's Statement on pages 2 to 4, and in the Investment Manager's Review on pages 16 to 23.

Investment Strategy and Policy

We aim to achieve our objective through a strategy of investing in a portfolio of mainly higher yielding UK FTSE 100 companies and by using appropriate gearing to enhance returns. This strategy is designed for those investors who require a single investment in a diversified and professionally managed portfolio.

The fund manager manages the portfolio primarily on a bottom up basis - selecting the best stocks - rather than through sector allocation. The portfolio is managed on a high conviction basis and as at 31 January 2014 was concentrated into 44 stocks.

Idea generation: The fund manager, who is supported by the UK equity income team, identifies potential winners for the portfolio by using an extensive team of over 85 in house research analysts, meeting with individual companies and using sell-side research. In addition, the fund manager uses Grassroots℠ Research, Allianz Global Investors' (AllianzGI) extensive global research resource which has 65 sector analysts backed by over 300 field force investigators. This network of independent researchers and journalists conducts investigative fieldwork and data collection to identify and confirm trends and test market assumptions. This provides the fund managers with timely and customised business insights and is unique to AllianzGI.

Stock selection: The fund manager makes a validation of his investment case through further analysis, discussions with the UK equity team, a stringent buy and sell discipline and consideration of the yield requirement.

Portfolio construction: The fund manager then constructs the portfolio based upon his level of conviction generated from the idea generation and stock selection process, he ensures that the portfolio is diversified with a specific eye on risk analysis and control.

Implementation: Once a decision has been made to buy or sell a stock, the fund manager aims to get best execution through AllianzGI's central dealing desk.

Gearing

The gearing - employing the company's borrowings to invest – is in the form of long term debentures. The manager fully utilises the gearing within the guidelines set by the Board.

Marketing

The Company's marketing activity has increased year on year to assist with promoting the Company to investors looking for exposure to capital growth in UK equities and an above average level of dividend. The policy is to reach out to private investors managing their own investments as well as wealth managers and institutional fund managers. This is undertaken through regional roadshows, marketing and public relations campaigns, and improved communication to investors through the website.

Dividend

A substantial proportion of the income is distributed to provide an above average yield on an annual basis. The Board seeks to increase the company's dividend each year whilst keeping back a modest amount for reserves in years of strong income growth. Investors receive the dividend on a quarterly basis.

Discount/premium

The discount/premium of the share price to net assets is closely monitored. The policy is to issue shares to meet natural demand in the market. Issuance is at a premium to net asset value, cum income with debt at market value, at a price that is not dilutive to existing shareholders.

Business Model

The Merchants Trust carries on business as an investment company and follows the investment policy described above.

Merchants is governed by an independent board of non-executive directors and has no employees or premises of its own. Like other investment companies, it outsources investment management and accounting, secretarial and other administration services to an investment management company – Allianz Global Investors Europe GmbH (AGI Europe) – and other third parties to provide shareholders with an efficient, competitive, cost-effective way to gain wide investment exposure through a single investment vehicle.

Strategic Report *(continued)*

at 31 January 2014

The company has a premium listing on the London Stock Exchange. In addition to annual and half-yearly financial reports and interim management statements, the company announces net asset values per share daily and provides more detailed information monthly to the Association of Investment Companies (AIC), of which the company is a member, in order for brokers and investors to compare its performance with its peer group.

Aims

The company's aims are to:

- consistently meet our growth and income objectives
- appeal to a broad range of investors to ensure the investment company remains relevant and attractive to new investors and investor groups
- ensure the costs of running the company remain reasonable and competitive
- be a widely recommended investment
- engage with shareholders and other relevant stakeholders to understand their needs and take their views into account in the development of future plans and strategy
- understand the implications of changes to future income growth prospects

Strategy Review

For each of the past four years we have held a Strategy Meeting outside the regular timetable of board meetings. We plan to have another strategy meeting in 2014. At the most recent meeting the topics covered included:

- the company's market position compared with its peer group, including an analysis of benchmarks, dividend policies, yields, discount policies and issues of shares
- gearing and the future for our debentures
- an in-depth examination of the investment philosophy
- the future potential for growth of the company
- stewardship

Following our strategic review, the actions we have taken are to:

- Develop our strategy on revenue reserves and distributions
- Introduce a strategy on the issuance of new shares. When shares are trading at a premium, the board has a policy allowing it to issue new shares to meet the objective of growing the company. In the year to 31 January 2014 the shares traded between a discount of 5.2% and a premium of 2.7% with debt at market value - averaging -1.0% in the year.
- Identify and report on the 'pull to par' of our debentures. Shareholders will see a benefit from the 'pull to par' as the market value of the company's debt decreases as we approach the maturity of the debentures and this will have a corresponding, positive impact on the NAV.
- Report in more detail on our proxy voting. Stewardship reporting is fully explained in the Directors' Report on page 37.

Strategic Report *(continued)*

at 31 January 2014

Key Performance Indicators

The board uses certain financial Key Performance Indicators (KPIs) to monitor and assess the performance of the company.

Performance against the Benchmark Index

This is the most important KPI by which performance is judged and this is shown in graph form on page 7. The trust'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, and for this reason the FTSE 100 is the benchmark index against which we measure our performance.

In the year to 31 January 2014 the company produced a capital NAV return to shareholders of 9.5%. This compares with the return on the company's benchmark index of 3.7%. In the previous year the NAV return was 16.0% and the benchmark index was 10.5%.

2014 Merchants Total Return

NAV Debt at market 17.5%
NAV Debt at par 14.5%
Benchmark 7.6%

2013 Merchants Total Return

NAV Debt at market 24.9%
NAV Debt at par 21.8%
Benchmark 14.8%

Expenses of Running the Company

The board has a policy of ensuring that the costs of running the company are reasonable and competitive. Ongoing charges are operating expenses incurred in the running of the company, whether charged to revenue or capital but excluding financing costs. The ongoing charges figure (OCF) is calculated by dividing operating expenses, that is, the company's management fee and all other ongoing charges by the average net asset value (with debt at market value) over the period. Since May 2012, ongoing charges have been published by the AIC and in the current year the peer group average OCF is 0.8%.

2014 0.6%
2013 0.7%

Performance against the Company's Peers

The board also monitors the performance relative to a broad range of competitor investment trusts over a range of time periods, taking into account comparative investment policies and objectives.

We look at the UK Equity Income investment trust sector and also compare the performance against a smaller number of competitors with the closest policies and objectives to our own.

As at 31 January 2014, the company was ranked in the UK Equity Income sector as follows:

1 year - 11 out of 21
3 years - 16 out of 20
5 years - 15 out of 20

(Net asset total return, with debt at market, Source JPMorgan Cazenove)

Dividends

The board has a policy of paying a progressive dividend each year, taking into account inflation and subject to general earnings growth and dividends received in the portfolio. Dividends paid in the past ten years are set out in the Historical Record table on page 28. Dividends have risen in every year since 1982 and the graph on page 7 shows how the dividend had performed against inflation.

2014 23.6p +1.7%
2013 23.2p +0.9%

Gearing

The company has the facility to gear - borrow money - with the objective of enhancing future returns. The market price of the debt is calculated and reflected in the published net asset values and gearing can be used to help to support dividend payments. Historically, gearing has been in the form of long term fixed rate debentures. The board monitors gearing to ensure that the company's borrowings remain below 35% in normal market conditions (as a percentage of net assets excluding borrowings).

Highest 25.1% Lowest 19.8% Average 21.7%
(2013 - 30.1% 23.0% 26.2%)

Risk

The principal risks identified by the board are set out in the table on this page, together with the actions taken to mitigate these risks. A more detailed version of this table, in the form of a Risk Matrix, is reviewed and updated by the board twice yearly. The principal risks and uncertainties faced by the company relate to the nature of its objectives and strategy as an investment company and the markets in which it operates.

Description	Mitigation
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 may also result 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. Allianz Global Investors (AGI UK) 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, including gearing, at each board meeting.
Corporate Governance and Shareholder Relations Shareholder discontent could arise if there is weak adherence to best practice in corporate governance and which could result in potential reputational damage to the company.	The board receives reports on shareholder activity and on shareholder sentiment on a regular basis and contact is maintained with major shareholders. 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 which can be found on the company's website http://www.merchantstrust.co.uk/Tenants/AGITrusts/Content/Documents/Corporate/Merchants/Corporate_Governance_Statement.pdf.
Regulatory Failure to comply with relevant regulations could damage the company and its ability to continue in business.	The board is guided by its advisers both within AGI UK and external to the manager on matters such as compliance with the Companies Act 2006, Accounting Standards, the Listing Rules, Disclosure and Transparency Rules and other applicable regulations, including the implementation of AIFMD.
Financial Failure to contain financial risks could result in losses to the company.	The financial risks associated with the company include market risk (price and yield), interest rate risk, liquidity risk and credit risk. The audit committee also consider these risks as part of its remit. Further analysis of these risks can be found in Note 17 on pages 66 to 71.

In addition to the specific principal risks identified in the table above, the company faces risks to the provision of services from third parties and more general risks relating to compliance with accounting, tax, legal and regulatory requirements, which could have an impact on reputation and market rating. These risks are formally reviewed by the board twice each year and how these risks are managed and mitigated is discussed and agreed for recording in the Risk Matrix. The board's reviews of the risks faced by the company also include an assessment of the residual risks after mitigating action has been taken. 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 which can be found on the company's website http://www.merchantstrust.co.uk/Tenants/AGITrusts/Content/Documents/Corporate/Merchants/Corporate_Governance_Statement.pdf.

Strategic Report *(continued)*

at 31 January 2014

Human Rights and Gender Diversity

The company has no employees and has a board composed entirely of non-executive directors and has no disclosures to make in respect of employees.

The current board consists of four male directors. The board is currently considering its succession plans and always seeks to include a gender balance in the shortlist in every recruitment process.

Environmental Policy

The board has instructed the manager to take into account the impact of environmental policies on the investment prospects of the company's underlying investments.

Corporate Social Responsibility

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. AGI UK has said: "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." In its Sustainable Investment Policy Statement, AGI UK says it "believes that the consideration of environmental, social and governance issues within the investment decision process provides a new and longer-term perspective on evaluating risk and opportunities."

The Future

The main trends and factors likely to affect the company in the future are common to all investment companies and include the future attractiveness of investment companies as investment vehicles of the asset classes in which the company invests, and the returns available from the market. 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 Chairman gives his view on the outlook in his statement on page 4 and the investment manager discusses his view of the outlook for the company's portfolio in his review on page 21.

The board continues to believe that the Retail Distribution Review offers opportunities to generate more interest in investment trusts and to demonstrate the advantages over open-ended investments.

In pursuit of this, the board has devoted more resources to marketing and following on from this there will be fuller information on the website www.merchantstrust.co.uk and more extensive media coverage.

Our aim is to continue to take advantage of the company's shares trading at a premium and to issue more shares to give existing shareholders the prospect of benefiting from reducing costs and opportunities for further strengthening of returns.

On behalf of the Board

Simon Fraser
Chairman
2 April 2014

The Merchants Trust PLC

Investment Manager's Review

Investment Manager's Review

Simon Gergel is Chief Investment Officer, UK Equities, Allianz Global Investors, based in London.

Economic and Market Background

There was a notable improvement in economic conditions in the UK during the year with gross domestic product growth, for example, improving from a virtual standstill at +0.2% Year on Year (YOY) in the fourth quarter of 2012 to +2.8% YOY in the fourth quarter of 2013. The level of employment grew and both consumer and business confidence improved markedly. In Europe, whilst there was a pick up from a period of overall contraction a year ago, growth was extremely modest, with little improvement in the aggregate employment market, although there were regional variations.

The US economy made progress, with growth picking up and unemployment falling. After several false dawns, the US government eventually agreed a new budget and debt ceiling, allowing the painful period of sequestration to end. One of the main focuses of attention was the level of Quantitative Easing (QE) or money printing by the US Federal Reserve Board and the question of whether and when they would "taper" or reduce their asset purchases. As QE had arguably been driving down bond yields and driving up asset valuations, concern over tapering created market and currency volatility towards the end of the year. Underlying economic conditions within Emerging markets were disappointing with China, India and Brazil all growing much slower than in the preceding years.

The FTSE 100 Index of leading UK companies traded within a fairly tight range between approximately 6000 and 6850. There was a notable drop following the Fed statement that they would consider "tapering" on May 22nd and further volatility ahead of and after the subsequent decision in December. Including dividends, the total return on the FTSE 100 Index was 7.6%. Medium sized companies outperformed significantly as confidence about the domestic economic recovery grew, with the FTSE 250 Index returning 23.5%. Higher yielding companies, represented by the FTSE 350 Higher Yield Index, produced a return of 9.7%, close to the FTSE All Share Index return of 10.1%.

FTSE 100 Index 31 January 2013 - 31 January 2014

"The Trust's portfolio significantly outperformed the stock market during the year. The capital return of 9.6% was 5.9% ahead of the FTSE 100 Index capital return of 3.7%."

There was a notable de-coupling between developed and emerging markets with many developed world markets producing strong double digit returns whilst most emerging markets delivered low or negative returns, that were further impacted by significant currency depreciation in many cases. Government bond prices fell and yields rose in response to stronger growth expectations and tapering fears. The pound was one of the strongest currencies and strengthened against the dollar, particularly in the second half of the year, ending at $1.64, up from $1.59 a year ago after hitting a low of under $1.50 in July.

Within the UK, there was a wide dispersion of returns between different sectors and stocks. The best performing sectors included telecoms, helped by Vodafone's announced disposal of its US operation, and cyclical consumer sectors such as retailers and travel & leisure. Life insurance and financial services also made strong gains on general optimism about recovering economic prospects and rising stock markets. Aerospace & defence benefitted from the US reaching a budget agreement and a robust civil aerospace background. On the other hand resources sectors were weak, with mining and oil equipment and services producing double digit negative total returns, whilst many supposedly "defensive" sectors, like tobacco, food retail and beverages had small negative returns. Two other large sectors, banks and oil & gas producers were broadly flat overall, although individual share price moves varied considerably. Political risk became more of a feature across the market with just over a year to go until the next general election. In particular energy company share prices were impacted by Labour's proposals to freeze energy tariffs if they win power.

Investment Performance

The Trust's portfolio significantly outperformed the stock market during the year. The capital return of 9.1% was 5.4% ahead of the FTSE 100 Index capital return of 3.7%. Including income the portfolio total return was 14.0%, 6.4% above the 7.6% total return on the index. Outperformance came from many different sectors, such as life insurance, beverages, media and aerospace & defence. The table on page 18 shows the top ten positive and negative contributors to performance and we have highlighted stocks where the portfolio had more than an index position (overweight) or less than an index position (underweight).

Within the UK the best performing sectors included telecoms and cyclical consumer sectors such as retailers and travel & leisure.

Investment Manager's Review *(continued)*

Investment activity does not necessarily drive strong performance, but strong performance can drive investment activity as we have to continuously challenge our views on shares.

A number of portfolio stocks rose considerably during the year, reflecting the wide dispersion of share price returns in the market. The three biggest contributors, **Resolution**, **Britvic** and **Daily Mail & General Trust** produced total returns of between 43% and 64%. All three of these were recovering from depressed valuations a year or two ago. Other strongly performing recovery situations included **BAE Systems**, **BBA Aviation** and **First Group**.

At the sector level, a low exposure to mining and banks helped performance as these sectors performed poorly and held back the FTSE 100 Index return. **Standard Chartered** and **Anglo American**, were the only two stocks not owned by the Trust amongst the top ten performance contributors. The final top ten performers were **IG Group** which was re-rated as it delivered robust trading results and **Hansteen Holdings**, an industrial property stock that was purchased in the first half of the year.

The main negative performance contributions came from strongly rising shares that were not owned (or underweight) in the portfolio, such as **Lloyds Bank**, **AstraZeneca** or **Prudential**. The telecoms stocks **BT** and **Vodafone** also feature in the list as the shares continued to rally after we reduced the exposure into rising prices. Other stocks that were not owned and detracted from performance were **Shire** and **Legal & General**.

There were three overweight positions that held back performance. Media stock **UBM** had disappointing trading and the shares fell back during the year. **Ladbrokes** and **De La Rue** were two potential recovery situations that were purchased in the period but continued to encounter difficult trading conditions.

Portfolio Changes

As share prices diverged significantly during the year, the relative valuations of companies changed, in some cases considerably. This provided opportunities either to buy shares at attractive levels or to sell at full valuations. As we commented in the interim report, we are mindful of transaction costs. Investment activity does not necessarily drive strong performance, but strong performance can drive investment activity as we have to continuously challenge our views on shares that have risen to see if they justify their higher prices. Overall we added nine new companies to the portfolio and sold out of eleven completely.

Contribution to Investment Performance relative to FTSE 100 Index

Positive Contribution	%	Over/under weight	Negative Contribution	%	Over/under weight
Resolution	0.9	+	Lloyds Banking Group	-0.8	-
Britvic	0.9	+	AstraZeneca	-0.6	-
Daily Mail & General Trust	0.8	+	Vodafone	-0.6	-
BAE Systems	0.7	+	Ladbrokes	-0.5	+
Standard Chartered	0.7	-	BT	-0.4	-
BBA Aviation	0.5	+	Prudential	-0.4	-
Anglo American	0.5	-	UBM	-0.3	+
First Group	0.4	+	Shire	-0.3	-
IG Group	0.4	+	De La Rue	-0.3	+
Hansteen	0.4	+	Legal & General	-0.2	-

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

Investment Manager's Review *(continued)*

Most of the purchases during the year fit into two broad themes, "mega caps" and recovery situations. The mega caps are the very largest companies in the market and as a group they have lagged behind the strong performance of the rest, especially medium sized and small companies. Whilst several mega caps such as the oil producers experienced difficult trading conditions, we nevertheless found opportunities in this area. These are typically strongly capitalised, globally diversified businesses offering attractive dividend yields and trading at modest valuations. We added to **HSBC**, **Royal Dutch Shell**, and **BHP Billiton** in particular.

Recovery situations vary between businesses where we anticipate a cyclical industry recovery and those with specific problems unrelated to the wider economy. In both cases the common theme was a share price at a discount to our assessment of fair value. Investors generally do not like uncertainty. We find that situations where there is uncertainty over the likelihood and timing of any recovery can be under-priced. However selectivity and analysis are key as shares can be cheap for a good reason. New purchases within the cyclical group include the recruitment firm **SThree** which would stand to benefit from an anticipated strengthening in employee turnover as well as structural growth in new geographies and disciplines. We also bought **Tyman**, a predominantly US based housing products company, whilst we increased the positions in **Balfour Beatty** and **CRH** in the depressed construction and building sectors.

The other recovery situations included **First Group**, the bus and rail company which was bought after the shares fell heavily during a rights issue to refinance the business. We also bought two bookmakers, **Ladbrokes** and **William Hill**. The Ladbrokes purchase was primarily linked to our belief that they can turn around their online gaming operation. Subsequently the whole bookmaking industry was hit by the threat of increased regulation of highly profitable gaming machines. This impacted both Ladbrokes and William Hill's share prices and gave us the opportunity to purchase the latter company too, at an attractive valuation. **De La Rue**, the banknote paper and security printing business which is undergoing a restructuring was another recovery situation added to the portfolio.

We find that situations where there is uncertainty over the likelihood and timing of any recovery can be under-priced. However selectivity and analysis are key as shares can be cheap for a good reason.

Largest Net Purchases		Largest Net Sales	
Company	**£m**	**Company**	**£m**
Hammerson	11.8	Vodafone	26.4
HSBC	11.7	Daily Mail & General Trust 'A'	12.2
Ladbrokes	10.6	Reckitt Benckiser	10.7
Pennon	10.5	BT	10.4
UBM	9.9	Reed Elsevier	7.7
BHP Billiton	9.6	National Grid	6.8
Hansteen	8.0	London Metric Property	6.4
De La Rue	7.4	Imperial Tobacco	6.3
First Group	7.2	Close Brothers	6.2
William Hill	6.9	Catlin	6.1

Investment Manager's Review *(continued)*

Industrial property is a sub-sector which has lagged other parts of the property market. We see the potential for good returns from industrial assets as tenant demand gradually picks up.

Within the real estate sector we added three new companies. **Hansteen Holdings** and **Segro** are specialists in industrial property, a sub-sector which has lagged other parts of the property market. We see the potential for good returns from industrial assets as tenant demand gradually picks up, including growing demand for logistics and distribution space. The third property company, **Hammerson** is a prime retail operator which we had sold last year but we were able to buy back at a discount to asset value in the second half. We sold the real estate company **London Metric Properties**, invested largely in secondary retail assets, which moved up to a significant premium to its asset value.

Within the utility sector we switched money out of the electricity and gas distribution company **National Grid** into the water and waste business **Pennon** on relative valuation grounds. Elsewhere, apart from new holdings, we also took advantage of share price weakness to make significant additions to stocks such as **UBM** and **Marks & Spencer**.

Sales from the portfolio predominantly reflected shares that had performed well and approached or even exceeded our assessment of fair value. Amongst defensive stocks we sold **Reckitt Benckiser**, **Compass** and **Imperial Tobacco**, although the latter was primarily related to trading issues and the risks from e-cigarettes. In telecoms we sold out of **BT** and substantially reduced the **Vodafone** position, particularly after the announced sale of their stake in Verizon Wireless and speculation of a takeover from AT&T. In aerospace & defence **Meggitt** and **Cobham** both reached our fair value targets, whilst the pub company **Marston's** was also sold after a significant rally. Amongst financials we sold **Close Brothers** and both the Lloyds insurance stocks – **Catlin** and **Hiscox** – where we could no longer see material upside potential.

Apart from these complete sales, we also took profits on a large part of the media holdings **Daily Mail & General Trust** and **Reed Elsevier**.

Derivatives Strategy

The Trust operates a covered call overwriting strategy on a limited proportion of the portfolio to generate additional income. In "writing" or selling an option the Trust gives the purchaser the right to buy a specific number of shares in a company at an agreed "strike" price within a fixed period. In exchange the Trust receives an option premium which is taken to the revenue account. The Trust gets the full benefit of any move in the share price up to the strike price but not beyond. If the share price rises above the strike price there is a potential "opportunity" (but not cash) cost to the Trust as the option holder can exercise their option to buy the shares at the strike price.

The option strategy once again delivered its primary objective of income generation, with approximately £1.2m of option premiums accrued. This was somewhat below the level in the previous year as we found fewer attractive situations that met our specific criteria. Despite our selectivity, there were a number of sharp upwards share price movements last year in stocks where we had written options. Whilst the portfolio overall benefitted from a rising market these upwards moves resulted in a net opportunity cost of the strategy, which took about 0.2% off the overall portfolio return. This opportunity cost came from selling shares at the strike price rather than the prevailing market price.

Our approach to option writing is increasingly selective and is driven by the investment fundamentals on each stock rather than by a separate derivatives rationale. We write calls on portions of shareholdings that we are happy to sell at the strike price, provided that the premium income received is sufficiently attractive. The options written are typically short dated with most less than 4 months duration. The total exposure is closely monitored and is limited to 15% of the portfolio value with all option positions "covered" by shares owned. From an holistic view it can be argued that the overall strategy slightly reduces the Trust's gearing to the equity market, neutralising some of the financial leverage. It tends to be more profitable in sideways or downwards markets but less profitable in rising markets.

Dividends

Underlying dividend growth was healthy as company cash flow improved. The portfolio also benefitted from a number of special dividends, such as at **Hiscox** and **Smiths Group**. Overall dividend income increased by 8.0% to £28.5m. Including other income (from underwriting and covered call writing) total income was up 5.3% at £29.8m.

Whilst prospects for dividends remain reasonably good, continued strength in Sterling may hold back income growth as around a quarter of the Trust's investments declare dividends in a foreign currency, principally the US dollar. Even where companies declare Sterling dividends their underlying trading profits are often earned in a foreign currency and therefore may be reduced somewhat due to translation effects.

Future Policy

The UK economy is arguably showing the most convincing signs of recovery since the global financial crisis. The housing market is responding to the government's Help-to-Buy scheme whilst continued low interest rates and improving confidence are supporting an improved outlook for the corporate sector. However we are wary of reading too much into these signs of recovery. The fundamental problem of excessive debt in the system remains unresolved. Furthermore we face the uncertainty of a Scottish independence referendum in September and a general election in May 2015. Political rhetoric is already growing and the threat of interventionist policies is increasing in industries ranging from banking and energy to gambling and food retail. There is also the uncertainty that would be caused if the UK were to face a referendum on EU membership after the election.

Outside the UK, conditions are less favourable. Whilst the US seems to be recovering, economic data is mixed and points to a relatively slow recovery, with Europe looking even more lacklustre and emerging markets also generally weak. The Japanese economy has perhaps given us the biggest positive surprise internationally, with a weak Yen and stimulative "Abenomics" policies gaining some traction after a prolonged period of stagnation.

The UK economy is arguably showing the most convincing signs of recovery since the global financial crisis. The housing market is responding to the government's Help-to-Buy scheme whilst continued low interest rates and improving confidence are supporting an improved outlook for the corporate sector.

Investment Manager's Review *(continued)*

It is now some five years since the trough of the market in 2009 and the FTSE 100 Index has broadly doubled since then, even excluding dividend income.

Corporate performance is mixed. Most businesses have recovered from the financial crisis and have improved their financial position but profits growth has not been that robust recently. The strength of the pound is reducing the sterling value of overseas profits, particularly for emerging markets. Also results have been held back by lacklustre economic growth in much of Europe and emerging markets like Brazil and India.

The mediocre corporate picture has not prevented the stock market from rising considerably. It is now some five years since the trough of the market in 2009 and the FTSE 100 Index has broadly doubled since then, even excluding dividend income. This rally has been partly driven by low interest rates and financial repression, effectively forcing money out of bank accounts and government bonds in search of higher yields and higher returns elsewhere. This has led to a significant re-rating of equities accompanied by a wide polarisation of returns as shown by the median company being on a much higher valuation and lower yield than the weighted average. In these circumstances there are fewer real bargains than a year or two ago. Furthermore there is a risk that when interest rates start to rise, the relative attractions of cash or bonds will improve which could potentially take some money back out of equities, although this scenario will hopefully be accompanied by stronger corporate earnings as well.

Thankfully we are not investing in the overall stock market but in individual businesses and we have been able to select a portfolio of around 45 stocks which we believe offer a combination of an attractive valuation and good medium term prospects. As noted in the portfolio review above we believe the very biggest companies, or mega-caps, are amongst the cheapest companies in the stock market. Examples include **HSBC**, **Royal Dutch Shell** and **GlaxoSmithKline**. Another major focus is on recovery situations where the market is applying too high a discount to a company's fair value due to shorter term risks.

Investment Manager's Review *(continued)*

Elsewhere many of the portfolio investments fit into themes, for example growth companies. We believe it is right to pay a premium for companies that can deliver structural growth particularly in a time of modest economic growth. However our strict valuation discipline limits the number of attractive opportunities, which include **Inmarsat**, **United Business Media** and **IG Group**. Another theme is inflation protection as there is a risk of inflation picking up due to the money printing policies of central banks. Sectors that provide some protection from inflation include those with real assets such as property and pub companies and food retailers. Also utility companies like **National Grid** or **Pennon** are able to charge inflation linked prices.

Elsewhere we also hold many cyclical consumer companies in the travel & leisure or retail sectors. The outlook for consumer spending should improve somewhat as employment levels continue to pick up whilst consumer price inflation has fallen back. Many of these businesses, like **Marks & Spencer**, **William Hill** or **Carnival Cruises** remain on sensible valuations.

Overall, whilst it is harder to identify cheap companies than a year or two ago, we are still finding plenty of good businesses to invest in on realistic valuations with attractive dividend yields that can grow over time.

Simon Gergel
Allianz Global Investors

We are still finding plenty of good businesses to invest in on realistic valuations with attractive dividend yields that can grow over time.

"We believe it is right to pay a premium for companies that can deliver structural growth particularly in a time of modest economic growth."

Equity Holdings

at 31 January 2014

Listed Equity Holdings

Name	Value (£)	% of holdings	Principal Activities
Royal Dutch Shell 'B'	58,355,309	9.2	Oil & Gas Producers
GlaxoSmithKline	48,609,215	7.7	Pharmaceuticals & Biotechnology
HSBC	43,148,045	6.8	Banks
BP	40,856,892	6.5	Oil & Gas Producers
BAE Systems	22,742,034	3.6	Aerospace & Defence
Resolution	21,964,383	3.5	Life Insurance
UBM	21,255,783	3.4	Media
BHP Billiton	21,031,710	3.3	Mining
British American Tobacco	18,638,500	3.0	Tobacco
SSE	18,428,700	2.9	Electricity
Top Ten Holdings	315,030,571	49.9	
Pennon	16,843,750	2.7	Gas, Water & Multi-utilities
Inmarsat	15,790,972	2.5	Mobile Telecommunications
Centrica	15,032,015	2.4	Gas, Water & Multi-utilities
Marks & Spencer	14,594,800	2.3	General Retailers
Sainsbury (J)	13,680,620	2.2	Food & Drug Retailers
National Grid	13,072,920	2.1	Gas, Water & Multi-utilities
Carnival	13,039,375	2.1	Travel & Leisure
Britvic	12,921,526	2.0	Beverages
Balfour Beatty	12,787,090	2.0	Construction & Materials
Hammerson	12,086,500	1.9	Real Estate Investment Trusts
CRH	11,775,000	1.9	Construction & Materials
Reed Elsevier	11,477,126	1.8	Media
Vodafone	11,257,836	1.8	Mobile Telecommunications
FirstGroup	10,256,400	1.6	Travel & Leisure
Hansteen	10,135,279	1.6	Real Estate Investment Trusts
Tesco	9,994,920	1.6	Food & Drug Retailers
Smiths Group	9,412,350	1.5	General Industrials
ICAP	8,467,871	1.3	Financial Services
Ladbrokes	7,971,500	1.3	Travel & Leisure
IG Group	7,872,937	1.2	Financial Services
SThree	7,290,113	1.1	Support Services
Ashmore Group	6,832,024	1.1	Financial Services
Segro	6,734,000	1.1	Real Estate Investment Trusts
Premier Farnell	6,705,300	1.1	Support Services
William Hill	6,640,000	1.1	Travel & Leisure
Greene King	6,634,000	1.0	Travel & Leisure

Equity Holdings *(continued)*

at 31 January 2014

Listed Equity Holdings *(continued)*

Name	Value (£)	% of holdings	Principal Activities
BBA Aviation	6,521,181	1.0	Industrial Transportation
Daily Mail & General Trust 'A'	5,913,225	0.9	Media
De La Rue	5,772,000	0.9	Support Services
Cineworld*	5,499,773	0.9	Travel & Leisure
Unilever	5,028,850	0.8	Food Producers
Mothercare	4,368,000	0.7	General Retailers
Man Group	2,695,038	0.4	Financial Services
Tyman	1,089,521	0.2	Construction & Materials
Total Listed Equities	631,224,383	100.0	

*Includes Cineworld Rights 14 February 2014 of £546,283.

Unlisted Equity Holdings

Name	Value (£)	% of holdings	Principal Activities
First Debenture Finance	23,483	73.3	Financial Services
Fintrust Debenture	4,486	14.0	Financial Services
W&G Investments	4,063	12.7	Financial Services
Total Unlisted Equities	32,032	100.0	

Written Call Options

As at 31 January 2014, the market value of the open option positions was £(75,000), resulting in an underlying exposure to 2.7% of the portfolio (valued at strike price).

Distribution of Total Assets

at 31 January 2014

	Percentage of Total Assets* at 31 January 2014	Percentage of Total Assets* at 31 January 2013
Oil & Gas		
Oil & Gas Producers	15.5	15.8
	15.5	**15.8**
Basic Materials		
Mining	3.3	2.5
	3.3	**2.5**
Industrials		
Aerospace & Defence	3.6	5.0
Construction & Materials	4.0	2.2
General Industrials	1.5	1.4
Industrial Transportation	1.0	1.4
Support Services	3.1	1.3
	13.2	**11.3**
Consumer Goods		
Beverages	2.0	1.9
Food & Drug Retailers	3.7	3.6
Food Producers	0.8	1.9
Household Goods & Home Construction	-	1.8
Tobacco	2.9	5.2
	9.4	**14.4**
Health Care		
Pharmaceuticals & Biotechnology	7.6	7.6
	7.6	**7.6**
Consumer Services		
General Retailers	3.0	1.6
Media	6.0	7.0
Travel & Leisure	7.8	4.6
	16.8	**13.2**

Distribution of Total Assets *(continued)*

at 31 January 2014

	Percentage of Total Assets* at 31 January 2014	Percentage of Total Assets* at 31 January 2013
Telecommunications		
Fixed Line Telecommunications	-	1.5
Mobile Telecommunications	4.2	6.9
	4.2	8.4
Utilities		
Electricity	2.9	3.4
Gas, Water & Multi-utilities	7.0	6.3
	9.9	9.7
Financials		
Banks	6.7	6.3
Financial Services	4.1	4.6
Life Insurance	3.4	2.8
Non-Life Insurance	-	1.8
Real Estate Investment Trusts	4.5	0.9
	18.7	16.4
Total Investments	98.6	99.3
Net Current Assets	1.4	0.7
Total Assets	100.0	100.0

*Total Assets (less creditors due within one year) £640,144,245 (2013 - £592,318,780)

Historical Record

year ended 31 January 2014

Revenue and Capital	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Income (£'000s)	22,675	24,714	27,750	28,495	31,730	23,687	25,741	27,305	28,313	29,827
Net revenue return per ordinary share	17.58p	19.44p	22.17p	22.86p	27.25p	18.91p	21.22p	22.00p	22.90p	24.22p
Dividend per share	18.00p	18.90p	20.00p	21.60p	22.80p	22.50p	22.80p	23.00p	23.20p	23.60p
Ordinary dividend per share	18.00p	18.90p	20.00p	21.60p	22.30p	22.50p	22.80p	23.00p	23.20p	23.60p
Special dividend per share	-	-	-	-	0.50p	-	-	-	-	-
Tax credit per share	2.00p	2.10p	2.22p	2.40p	2.53p	2.50p	2.53p	2.56p	2.58p	2.62p
Gross dividend per share	20.00p	21.00p	22.22p	24.00p	25.33p	25.00p	25.33p	25.56p	25.78p	26.22p
Total net assets attributable to ordinary capital (£'000s)	424,511†	514,713	588,835	506,187	314,804	384,747	440,846	415,025	481,464	529,478
Net asset value per ordinary share (debt at par)	415.8p†	504.1p	567.5p	492.3p	306.2p	372.8p	427.1p	402.1p	466.5p	510.8p
Net asset value per ordinary share (debt at market value)~	-	-	-	-	278.5p	356.4p	407.3p	366.2p	434.1p	486.8p
NAV total return (%)*	+20.8†	+25.6	+16.4	-9.6	-33.4	+29.2	+20.7	-0.5	+21.8	14.5
Ordinary share price	383.8p	451.0p	513.0p	425.0p	282.0p	329.1p	406.9p	363.0p	412.7p	491.5p
Discount/premuim (debt at par)	-7.7	-10.5	-9.6	-13.7	-7.9	-11.7	-4.7	-9.7	-11.5	-3.8
Discount/premium (debt at market value)~	-	-	-	-	-1.3	-7.7	-0.1	-0.9	-4.9	+1.0
Retail price index increases (%)**	+2.1	+2.3	+4.2	+4.1	+0.1	+4.6	+5.1	+3.9	+3.3	+2.8

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'.

~ NAV debt at market value has been reported since 2009.

The Merchants Trust PLC

Director's Review

Directors, Investment Manager and Advisers

Directors

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

Simon Fraser (Chairman)
Joined the board in August 2009 and became Chairman in 2010. He is Chairman of Foreign & Colonial Investment Trust PLC and a non-executive director of Barclays PLC, Barclays Bank PLC, Ashmore Group plc, Fidelity European Values PLC and Fidelity Japanese Values PLC. He spent his career at Fidelity International Limited, where he held a number of positions, including Chief Investment Officer from 1999-2005, President of Fidelity International's European and UK Institutional business and latterly President of the Investment Solutions Group.

Henry Staunton (Senior Independent Director)
Joined the board in May 2008. He is Chairman of WH Smith PLC, and a non-executive director of Standard Bank Plc and Capital & Counties Properties. He was previously Finance Director at ITV plc and Granada Group plc. He was also Vice-Chairman and the Senior Independent Director of Legal & General Group plc and a non-executive director of Ladbrokes plc, Emap plc, British Sky Broadcasting Group plc, Independent Television News Limited and Ashtead Group plc, of which he was also Chairman between 2001 and 2004. He is a Chartered Accountant.

Mike McKeon (Chairman of the Audit Committee)
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 positions at Rolls-Royce plc from 1997 to 2000. He has extensive experience from a number of overseas roles, having worked at CarnaudMetalbox, Elf Atochem and PricewaterhouseCoopers LLP. He is a Chartered Accountant.

Paul Yates
Joined the board in March 2011. He is Chairman of the Advisory Board of 33 St James's Limited and is a non-executive director of Aberdeen UK Tracker Trust plc. He has had a long career in investment management beginning at Samuel Montagu & Co in 1980. He joined Phillips and Drew in 1985 – the year that it was acquired by UBS. He held a number of positions at UBS, covering management, portfolio management, pensions, strategy and client service. He was CEO of UBS Global Asset Management (UK) Limited between 2001 and 2005. After undertaking a number of global roles at UBS he retired in 2007.

Directors, Investment Manager and Advisers *(continued)*

The Manager

The name of the company's investment manager changed from RCM (UK) Limited ("RCM UK") to Allianz Global Investors Europe GmbH ("AllianzGI Europe") on 31 October 2013. This followed from a merger within Allianz Global Investors Group of RCM UK into AllianzGI Europe. The management and administration agreement between the company and RCM UK Limited transferred to AllianzGI Europe and the terms of this agreement were unchanged. The management and administrative services previously provided by RCM UK are now provided out of the UK Branch of AllianzGI Europe by the same team and individuals.

Allianz Global Investors Europe GmbH is an investment company with limited liability incorporated in Germany and registered in the UK as a branch with establishment number BR009058 and with an establishment address of 199 Bishopsgate, London EC2M 3TY. It is authorised and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and is subject to limited regulation by the Financial Conduct Authority (FCA).

Allianz Global Investors are active asset managers operating across 19 markets with specialised in-house research teams around the globe, managing assets for individuals, families and institutions worldwide.

As at 31 December 2013, Allianz Global Investors had €345 billion of assets under management worldwide.

Through its predecessors, Allianz Global Investors has a heritage of investment trust management expertise in the UK reaching back to the nineteenth century and as at 31 December 2013 had £1.4 billion assets under management in a range of investment trusts.
Website: www.allianzgi.co.uk

Head of Investment Trusts

Melissa Gallagher
Email: melissa.gallagher@allianzgi.com

Investment Manager

Simon Gergel, representing Allianz Global Investors Europe GmbH, UK Branch, 199 Bishopsgate, London EC2M 3TY.

Company Secretary and Registered Office

Kirsten Salt BA (Hons) ACIS,
199 Bishopsgate, London EC2M 3TY
Telephone: 020 7065 1513
Email: kirsten.salt@allianzgi.com

Registered Number

28276

Independent Auditors

PricewaterhouseCoopers LLP

Bankers

HSBC Bank plc, Barclays Bank

Registrars

Capita Asset Services
(full details on page 75)

Solicitors

Herbert Smith Freehills LLP

Stockbrokers

JP Morgan Securities Limited

Directors' Report

The directors present their report and the audited financial statements of the company for the year ended 31 January 2014. Certain information previously shown in the Directors' Report, including the Business Review, has been removed, or may be found in the Strategic Report on pages 10 to 14.

Revenue

The net return attributable to ordinary shareholders for the year amounted to £25,012,848 (2013 – £23,631,722).

Net revenue return was £25,012,848, or 24.2p per ordinary share. The first and second interim dividends each of £6,089,594 or 5.9p per share have been paid during the year. Since the year end the third interim dividend of 5.9p per share has been paid. The final proposed dividend of 5.9p per share - £6,116,144, subject to shareholder approval, will be payable on 23 May 2014. In accordance with FRS 21 'Events after the Balance Sheet Date', the third interim dividend and final dividend are not recognised as liabilities within the financial statements on the basis that at the year end the third interim dividend had not been paid and the final dividend not approved by the shareholders.

Historical Record

The distribution of total assets is shown on pages 26 and 27, and the historical record of the company's revenue, capital and invested funds over the past ten years is shown on page 28. Graphs appear on page 7 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 FTSE 100 Index, the growth in net ordinary distributions made by the company against the Retail Price Index, the company's discount/premium to net asset value and the dividend yield compared to the FTSE 100 Index, UK gilt yield and cash, over the same period.

Invested Funds

Sales of investments during the year resulted in net gains based on historical costs of £51,355,968 (2013 – gains of £11,370,747). Provisions contained in the Finance Act 2010 exempt approved investment trusts from corporation tax on their chargeable gains.

Share Issuance

During the year Merchants announced that given the demand for the company's shares that it had adopted a policy of issuing shares at a premium to net asset value, cum income with debt at market value, to meet natural demand in the market, and at a price that would not be dilutive to existing shareholders. During the year to 31 January 2014, 450,000 shares were issued at an average premium of 1.5% (2013 - nil). Since the year end a further 500,000 share have been issued at an average premium of 1.5%.

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 Chairman's Statement on pages 2 to 4 sets out the outlook for the company and the investment manager also discusses his view of the outlook for the company's portfolio in his report beginning on page 16. The future is also discussed in the Strategic Report on page 14.

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.

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 in Note 11 on page 63. The details of the 4% Perpetual Debenture Stock and the 3.65% Cumulative Preference Stock are provided in notes 10(iv) and 10(v) respectively on page 63.

Directors' Report *(continued)*

Voting Rights in the Company's Shares

The voting rights at 2 April 2014 were:

Share class	Number of shares issued	Voting rights per share	Total voting rights
Ordinary shares of 25p	104,163,464	1	104,163,464
3.65% Cumulative Preference Stock of £1	1,178,000	1	1,178,000
Total	105,341,464		105,341,464

Every member on a show of hands has one vote. On a poll every member who is present in person or by proxy or representative has one vote for every £1 in nominal amount of preference stock or one vote for every ordinary share of 25p. The perpetual debenture stock and bonds carry no voting rights.

Interests in the Company's Share Capital

As at 2 April 2014 the following had declared a notifiable interest in the company's issued share capital:

Ordinary Shares

Name	Number of shares	Percentage of voting rights
Legal & General Group PLC	4,099,823	3.90
Axa SA	3,664,667	3.48

This represents no change since the year end.

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

Directors

Biographical details of the directors in office during the year and up to the date of the signing of this report are shown on page 30 and all directors served throughout the financial year under review.

All of the directors are retiring by rotation at the annual general meeting and each offers himself for re-election. The board considers each director to be independent of the manager and has the full support of the board in standing for re-election. Following a formal performance evaluation conducted by the chairman it was noted that each director's individual performance continues to be effective and each director demonstrates commitment to his role.

All directors attended all board and relevant committee meetings during the year.

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 company's Articles.

Directors' and officers' liability insurance cover is held by the company and deeds of indemnity have been entered into with the directors.

Directors' Report *(continued)*

Management Contract and Management Fee

The management contract with Allianz Global Investors Europe GmbH, UK Branch (AGI UK) provides for a fee of 0.35% per annum (2013 – 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 AGI UK. The management contract is terminable at one year's notice (2013 – one year). Under the contract, other than a year's fees which may be paid in lieu of notice, there are no compensation payments due on termination.

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.

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.

Corporate Governance Statement

The board has considered the principles and recommendations of the AIC Code of Corporate Governance 2013 (AIC Code) and been guided by the AIC Corporate Governance Guide for Investment Companies (AIC Guide). Both documents can be found on the AIC website www.theaic.co.uk. As confirmed by the Financial Reporting Council, following the AIC Guide enables investment company boards to meet their obligations under the UK Corporate Governance Code and Listing Rules. The company has complied with the current recommendations of the AIC Code and the relevant provisions of UK Corporate Governance Code, except in relation to the UK Corporate Governance Code (September 2012) provisions relating to: the role of the chief executive; executive directors' remuneration; and the remuneration committee and the need for an internal audit function. For the reasons set out in the AIC Guide, and in the preamble to the UK Corporate Governance Code, the board considers these provisions are not relevant to the company as it is an externally managed investment company.

The full text of the company's Corporate Governance Statement is on the website http://www.merchantstrust.co.uk/Tenants/AGITrusts/Content/Documents/Corporate/Merchants/Corporate_Governance_Statement.pdf.

Attendance by the current directors at formal board and committee meetings during the year was as follows:

Director	Board	Audit Committee	Nomination Committee	Management Engagement Committee
Number of meetings	6	2	1	1
Simon Fraser	6	2†	1	1
Mike McKeon	6	2	1	1
Henry Staunton	6	2	1	1
Paul Yates	6	2	1	1

† Invited to attend meetings, although not a committee member.

Special Rights Disclosure

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.

The company is not aware of any agreements between holders of securities with regard to control of the company which may result in restrictions on voting rights.

Conflicts of Interest

The Companies Act 2006 sets out directors’ general duties. 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. Directors are able to authorise these conflicts and potential conflicts. The board reports 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 Report is on pages 40 and 41.

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 Simon Fraser, the Chairman of the board. All directors serve on the committee and consider nominations made in accordance with an agreed procedure. The recruitment process for new directors is for the board to appoint external consultants to nominate candidates for the committee to consider.

The board has issued a statement giving support to the intention of the Davies Review ‘Women on boards’ to encourage diversity on the boards of companies. There are no current plans to recruit new directors, but the board continues to keep this under review. In the last recruitment exercise, as described in the previous annual report, the board sought to identify a wide spectrum of candidates and to take gender into account. The board’s aim is to continue with a policy of shortlisting women in the search for new directors.

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 would exclude any directors previously employed by the manager. It is chaired by Simon Fraser, the Chairman of the 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.

The board has not constituted a remuneration committee; all directors are non-executive and remuneration matters are dealt with by the whole board.

Financial Reporting

The Statement of Directors’ Responsibilities in respect of the financial statements is on page 39. The Independent Auditors’ Report can be found on pages 46 to 48.

Directors' Report *(continued)*

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 418 of the Companies Act 2006.

Internal Control

The directors have overall responsibility for the company's system of internal control and are responsible for reviewing the effectiveness of the company's systems 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 risks faced by the company. This process is subject to review by the audit committee and accords with the Turnbull guidance and it is believed that the appropriate framework is in place to meet the requirements of the AIC Code. The process has been fully in place throughout the year under review and up to the date of signing of this Annual 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 (see page 13). 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 Allianz Global Investors Europe GmbH, UK Branch (AGI UK), 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 procedures and systems which are regularly evaluated by management and monitored by its internal audit department. 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 systems of controls of third party service providers by reviewing internal control reports of those parties including the manager, the company's registrars, Capita Asset Services and the custodian, HSBC Bank plc.

The audit committee has received reports from each of its service providers on the anti-bribery policies of these third parties. It receives reports on compliance with the manager's anti-bribery policy.

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 Chairmen of the board's committees, 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 reports to the board on matters raised at these meetings. The Chairman and, where appropriate, other directors, are available to meet with shareholders to discuss governance and strategy and to understand their issues and concerns. 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, The Merchants Trust PLC, 199 Bishopsgate, London EC2M 3TY.

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

The UK Stewardship Code and 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, AGI UK. The UK Stewardship Code sets out good practice on engagement with investee companies. It provides an opportunity to bring together UK and overseas investors committed to the high quality dialogue with companies needed to underpin good governance.

By creating a sound basis of engagement it should create a much needed stronger link between governance and the investment process, and support the concept of "comply or explain" as applied by listed companies. The Financial Reporting Council therefore sees it as complementary to the UK Corporate Governance Code for listed companies. Allianz Global Investors' policy statement on the Stewardship Code can be found on its website. The board has reviewed this policy statement and is satisfied that the company's delegated voting powers are being properly executed and is working with AGI UK to assess the effectiveness of the Stewardship Code in practice.

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.

Allianz Global Investors 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, AGI UK is a member of the National Association of Pension Funds and the International Corporate Governance Network, 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 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 company's voting record in the previous year will be available for inspection at the annual general meeting each year.

Greenhouse Gas Emissions

The company has an external manager, Allianz Global Investors, part of Allianz Group, and has no physical assets, operations, premises or employees of its own. Consequently it has no greenhouse gas emissions to report. Allianz Group reports on the greenhouse gas emissions for its own operations.

Annual General Meeting

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 551 of the Companies Act 2006, up to a maximum number of 34,721,154 ordinary shares, representing approximately one third of the existing ordinary share capital. This authority is renewable annually and will expire at the conclusion of the annual general meeting in 2015.

Directors' Report *(continued)*

A resolution was passed at the annual general meeting held on 10 May 2013 in accordance with section 570 of the Companies Act 2006, to authorise the directors to allot ordinary shares for cash other than pro rata to existing shareholders. The authority is renewable annually and expires at the conclusion of the annual general meeting in 2014. A special resolution is therefore proposed under special business at the forthcoming annual general meeting to renew this authority until the conclusion of the annual general meeting in 2015 or 21 August 2015 if earlier. This power is limited to a maximum number of 10,416,346 ordinary shares, being approximately 10% 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 21 May 2014.

The directors may allot shares under these authorities to take advantage of opportunities in the market as they arise but 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.

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 £400 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, could help to reduce the discount to net asset value when the company's shares trade at a discount.

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.

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 15,614,103 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 21 May 2014.

The authority in accordance with section 701 of the Companies Act 2006, will last until the annual general meeting of the company to be held in 2015 or the expiry of 15 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.

Independent Auditors

The directors will place a resolution before the annual general meeting to reappoint PricewaterhouseCoopers LLP as statutory 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.

The board and the Annual Report

The board reviewed the entire annual report and noted all the supporting information received. It then considered whether the annual report satisfactorily reflected a true picture of the company and its activities and performance in the year, with a clear link between the relevant sections of the report. The directors were then able to confirm that the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

By order of the Board

Kirsten Salt
Company Secretary
2 April 2014

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Company law also requires that the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the net return 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 accounting estimates that are reasonable and prudent;
- state whether applicable UK 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. 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 directors each have a duty to make themselves aware of any "relevant audit information" and ensure that the auditors have been made aware of that information. A disclosure stating that each director has complied with that duty is given in the Directors' Report.

The directors are responsible for ensuring that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

The financial statements are published on www.merchantstrust.co.uk, which is a website maintained by the company's investment manager, AGI UK. The directors are responsible for the maintenance and integrity of 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 financial statements may differ from legislation in other jurisdictions.

Statement under DTR 4.1.12

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

- the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities, financial position and net return of the company; and
- the Annual Report includes a fair review of the development and performance of the company and the position of the company, together with a description of the principal risks and uncertainties that it faces.

For and on behalf of the board

Simon Fraser
Chairman
2 April 2014

Audit Committee Report

Composition

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 committee considers that, collectively, its members have sufficient recent and relevant financial experience to discharge their responsibilities fully: two of the three committee members, Henry Staunton and myself, are chartered accountants.

Role

The principal role of the Audit Committee is to assist the board in relation to the reporting of financial information, the review of financial controls and the management of risk. The committee has defined terms of reference and duties and the terms of reference are published on the company's website. These include:

- responsibility for the review of the Annual Report and the Half-yearly Report;
- the nature and scope of the external audit and the findings therefrom; and
- the terms of appointment of the auditors, including their remuneration and the provision of any non-audit services by them.

Non-audit services

Non-audit services received in the year related to the covenants under the debenture trust deeds and the audit committee agreed that it was appropriate that the company's auditors should be asked to provide these services.

There were non-audit services of £4,320 in the year (2013 - £3,600). These fees are considered by the audit committee to be proportionate to the fees for audit services of £25,530 (2013 - £28,915).

Activities

During the year the committee met twice during which the Annual Report and the Half-yearly Report respectively were reviewed in detail. These meetings were attended by representatives of the manager including their compliance officer. At each meeting the committee received a report from the compliance officer on the operation of financial controls relating to the company and the proper conduct of its business in accordance with the regulatory environment in which both the company and the manager operate. The committee also considered the auditors' report on the annual report, 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 believes the performance of the auditors is satisfactory and recommended their reappointment to the board. 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.

Risk

The committee considered a matrix of risks at each of its meetings and there is more detail on the process of these reviews in the Strategic Report on page 13.

Internal audit

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.

Audit Committee Report *(continued)*

Financial Report and Significant Issues

The audit committee met with the auditors at the half-year point to discuss the audit plan for the year and identify the significant issues to be dealt with in the review of the year end results. The significant issues identified for the review, as presenting the greatest risks, were:

- risks around the valuation and existence of investments;
- the possibility that management could override controls in place surrounding the recording of transactions; and
- the risk that income from the portfolio of investments was not correctly recognised and accounted for.

We noted that investments are valued using stock exchange prices provided by third party financial data vendors.

We also agreed the degree of materiality that the auditors would apply in their work, which is £5.3 million, or about 1% of Net Assets, although the auditors would bring to the audit committee's attention any significant misstatements below that level.

We addressed the other risks in the planning for the audit by receiving reports from the manager that the controls in these areas are properly documented and explained and that the company's stated accounting policies, which are set out on pages 54 and 55, were noted and adhered to. These and other matters, identified as posing lesser risk, were considered and discussed with the manager and the auditors as part of the year end process.

Auditors' tenure

The audit committee has noted the AIC Code provisions relating to the tendering for external audit contracts every ten years. The current audit partner is in his first year of the audit. The committee has noted the AIC Code provisions relating to the tendering for external audit contracts every ten years for larger companies and is aware of the deliberations in this area by the Competition Commission and the European Union which would apply to all listed companies. This is a matter we will consider during 2014 when we have certainty with both sets of rules and further guidance on their interaction.

Whistleblowing

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. However, any matters concerning the company may be raised with the Chairman or the Senior Independent Director. The audit committee has, however, received and noted the manager's policy on this matter.

Mike McKeon
Audit Committee
Chairman
2 April 2014

Directors' Remuneration Report

The Remuneration Report

This is the Directors' Remuneration Report for the year. The report is submitted in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 for the year ended 31 January 2014. An ordinary resolution for the approval of the Directors' Remuneration Policy will be put to a binding shareholder vote at the forthcoming annual general meeting and at every three years after that. The Directors' Remuneration Implementation Report will be put to an advisory shareholder vote at this year's AGM.

The information provided in this part of the Directors' Remuneration Report is not subject to audit unless specified below.

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.

Directors' Shareholdings and Share Interest (Audited)

The interest of the directors in the ordinary share capital of the company are set out below:

	2014	2013
Simon Fraser	20,000	20,000
Mike McKeon	5,450	5,450
Henry Staunton	10,000	10,000
Paul Yates	10,000	10,000

The company's Articles provide for directors to hold qualifying shares in the nominal amount of £100, i.e., currently 400 shares.

Directors' Remuneration Policy

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 half-yearly 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 limit the aggregate fees payable to the board of directors to a total of £200,000 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 are entitled to be reimbursed for any reasonable expenses properly incurred by them in connection with the performance of their duties and attendance at meetings. There are no agreements between the company and its directors concerning compensation for loss of office.

The company's Articles also provide that additional discretionary payments can be made for services which in the opinion of the directors are outside the scope of the ordinary duties of a director.

This Directors' Remuneration Policy is the same in all material respects as that currently followed by the board and summarised in the last Directors' Remuneration Report. This policy is intended to take effect immediately upon its approval by shareholders.

The Company has no employees and consequently has no policy on the remuneration of employees.

The Board will consider, where raised, shareholders' views on Directors' remuneration.

Annual Statement and Directors' Remuneration Implementation Report

Directors' Emoluments (Audited)

The policy is to review directors' fee rates from time to time, but reviews will not necessarily result in a change to the rates.

In the year under review the directors were paid at a rate of £22,000 per annum and the Chairman at a rate of £33,000 per annum, with an additional £3,750 for the Chairman of the Audit Committee. The current fees have applied since 1 February 2013.

The fees were reviewed after the end of the year and the following new fees apply with effect from 1 February 2014: directors' fees are £23,000 per annum, the Chairman's fees are £35,000 per annum, with an additional £4,500 for the Chairman of the Audit Committee,

The directors' emoluments during the year and in the previous year, all of which were in the form of fees, were as follows:

	Directors' fees	
	2014 £	2013 £
Simon Fraser	33,000	31,500
Mike McKeon	25,750	24,250
Henry Staunton	22,000	21,000
Paul Yates	22,000	21,000
Totals	102,750	97,750

Analysis of Pay against Distributions

A table showing actual expenditure by the company on remuneration and distributions to shareholders for the year and the prior year is below:

Expenditure by the company on remuneration and distributions to shareholders

	2014 £	2013 £
Remuneration paid to all directors	102,750	97,750
Distributions to shareholders	24,405,576	23,945,524

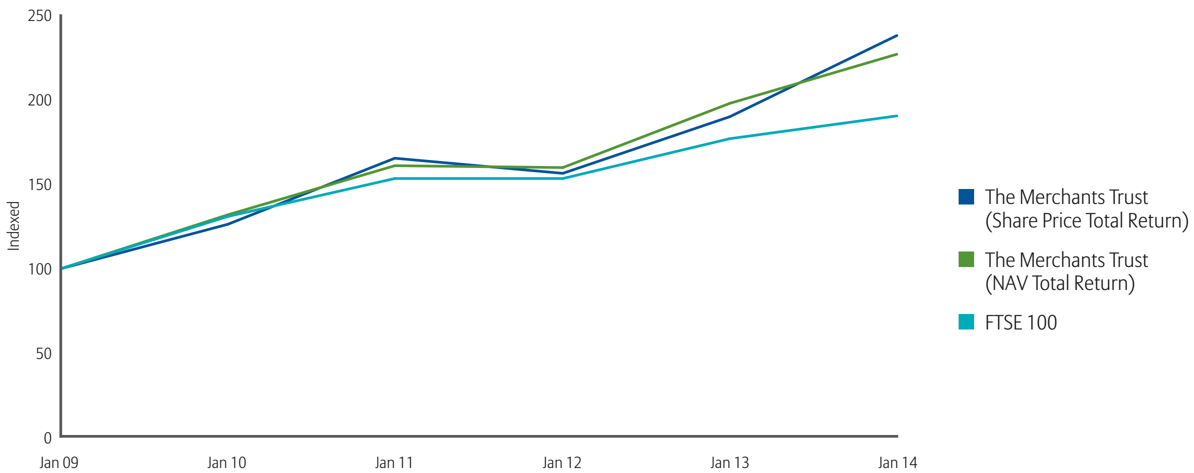
The disclosure is a statutory requirement, however the directors do not consider that the comparison of directors' remuneration with distributions to shareholders is a meaningful measure against the company's overall performance.

Directors' Remuneration Report *(continued)*

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.



Source: AGI / Datastream in GBP
Figures have been rebased to 100 as at January 2009

Signed on behalf of the Board

Simon Fraser
Chairman
2 April 2014

The Merchants Trust PLC

Auditors' Report

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

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Company's affairs as at 31 January 2014 and of its net return and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements, which are prepared by The Merchants Trust PLC (the 'Company'), comprise:

- the Balance Sheet as at 31 January 2014;
- the Income Statement for the year then ended;
- the Reconciliation of Movements in Shareholders' funds for the year then ended;
- the Cash Flow Statement for the year then ended;
- the Statement of Accounting Policies; and
- the Notes to the Financial Statements, which include other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)'). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined an overall materiality for the financial statements as a whole of £5.3 million which is approximately 1% of Net Assets.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £265,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of our audit

The Company is a stand alone Investment Trust Company managed by an independent investment manager, Allianz Global Investors Europe GmbH (the 'Investment Manager').

The financial statements, which remain the responsibility of the directors, are prepared on their behalf by the Investment Manager. The Investment Manager has, with the consent of the directors, delegated the provision of certain administrative functions to The Bank of New York Mellon Corporation (the 'Company Administrator').

In establishing the overall approach to our audit we assessed the risks of material misstatement, taking into account the nature, likelihood and potential magnitude of any misstatement. As part of our risk assessment, we considered the Company's interaction with the Investment Manager and Company Administrator, and we assessed the control environment in place at both organisations to the extent relevant to our audit of the Company.

Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements.

Independent Auditors' Report to the Members of The Merchants Trust PLC *(continued)*

Areas of particular audit focus

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 41.

Area of focus	How the scope of our audit addressed the area of focus
Valuation and existence of investments We focused on this area because investments represent the principal element of the financial statements.	The investment portfolio includes listed equity investments, valued at £631,224,383. We tested 100% of the valuation of the listed equity investments by agreeing the valuation to independent third party sources. We tested the existence of the investments by agreeing the company's holdings to an independent custodian confirmation.
Risk of management override of internal controls ISAs (UK & Ireland) require that we consider this.	We tested journal entries to determine whether adjustments were supported by evidence and appropriately authorised. We also built an element of 'unpredictability' into our detailed testing.
Revenue recognition (including fraud risk) We focused on this area because incomplete or inaccurate income could have a material impact on the Company's net asset value and dividend cover. ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition because of the pressure management may feel to achieve the planned results.	We understood and evaluated the controls surrounding revenue recognition. We identified significant or unusual revenue transactions and agreed them to source documentation to check the validity of the revenue transaction. We tested a sample of dividend receipts to independent third party sources and for a sample of investment holdings tested that the appropriate dividends had been received in the period.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 32, in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Company has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Company's ability to continue as a going concern.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Independent Auditors' Report to the Members of The Merchants Trust PLC *(continued)*

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code ('the Code'). We have nothing to report having performed our review.

On page 39 of the Annual Report, as required by the Code Provision C.1.1, the directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the company's performance, business model and strategy. On page 41, as required by C.3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the directors is materially inconsistent with our knowledge of the Company acquired in the course of performing our audit; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

Other information in the Annual Report

Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 39, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Jeremy Jensen
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP,
Chartered Accountants and Statutory Auditors, London
2 April 2014

The Merchants Trust PLC

Financial Statements

Income Statement

for the year ended 31 January

	Notes	2014 Revenue £	2014 Capital £	2014 Total Return £	2013 Revenue £	2013 Capital £	2013 Total Return £
Net gains on investments at fair value	8	-	52,436,938	52,436,938	-	73,990,109	73,990,109
Income	1	29,826,684	-	29,826,684	28,312,659	-	28,312,659
Investment management fee	2	(778,416)	(1,445,631)	(2,224,047)	(668,352)	(1,241,225)	(1,909,577)
Administration expenses	3	(720,249)	(4,198)	(724,447)	(683,940)	(2,943)	(686,883)
Net return before finance costs and taxation		28,328,019	50,987,109	79,315,128	26,960,367	72,745,941	99,706,308
Finance costs: interest payable and similar charges	4	(3,315,171)	(6,076,873)	(9,392,044)	(3,328,645)	(6,101,807)	(9,430,452)
Net return on ordinary activities before taxation		25,012,848	44,910,236	69,923,084	23,631,722	66,644,134	90,275,856
Taxation	5	-	-	-	-	-	-
Net return on ordinary activities attributable to ordinary shareholders		25,012,848	44,910,236	69,923,084	23,631,722	66,644,134	90,275,856
Net return per ordinary share (basic and diluted)	7	24.22p	43.48p	67.70p	22.90p	64.57p	87.47p

Dividends in respect of the financial year ended 31 January 2014 total 23.60p (2013 - 23.20p) per share, amounting to £24,405,576 (2013 - £23,945,524). Details are set out in Note 6 on page 39.

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.

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 54 to 72 form an integral part of these financial statements.

Reconciliation of Movements in Shareholders' Funds

for the year ended 31 January

	Notes	Called up Share Capital £	Share Premium Account £	Capital Redemption Reserve £	Capital Reserve £	Revenue Reserve £	Total £
Net assets at 1 February 2012		25,803,366	8,523,195	292,853	356,683,841	23,721,449	415,024,704
Revenue return		-	-	-	-	23,631,722	23,631,722
Dividends on ordinary shares	6	-	-	-	-	(23,945,524)	(23,945,524)
Unclaimed dividends over 12 years		-	-	-	-	109,133	109,133
Capital return		-	-	-	66,644,134	-	66,644,134
Net assets at 31 January 2013		**25,803,366**	**8,523,195**	**292,853**	**423,327,975**	**23,516,780**	**481,464,169**
Net assets at 1 February 2013		25,803,366	8,523,195	292,853	423,327,975	23,516,780	481,464,169
Revenue return		-	-	-	-	25,012,848	25,012,848
Dividends on ordinary shares	6	-	-	-	-	(24,151,950)	(24,151,950)
Capital return		-	-	-	44,910,236	-	44,910,236
Shares issued during the year	11	112,500	2,130,255	-	-	-	2,242,755
Net assets at 31 January 2014		**25,915,866**	**10,653,450**	**292,853**	**468,238,211**	**24,377,678**	**529,478,058**

The Notes on pages 54 to 72 form an integral part of these financial statements.

Balance Sheet

at 31 January

	Notes	2014 £	2014 £	2013 £
Fixed Assets				
Investments held at fair value through profit or loss	8		631,256,415	587,913,417
Current Assets				
Debtors	10	3,742,966		1,951,529
Cash at bank		8,083,385		8,660,128
		11,826,351		10,611,657
Creditors: amounts falling due within one year	10	(2,863,521)		(5,249,381)
Derivative financial instruments	8	(75,000)		(956,913)
		(2,938,521)		(6,206,294)
Net current assets			8,887,830	4,405,363
Total assets less current liabilities			640,144,245	592,318,780
Creditors: amounts falling due after more than one year	10		(110,666,187)	(110,854,611)
Net assets			529,478,058	481,464,169
Capital and Reserves				
Called up share capital	11		25,915,866	25,803,366
Share premium account	12		10,653,450	8,523,195
Capital redemption reserve	12		292,853	292,853
Capital reserve	12		468,238,211	423,327,975
Revenue reserve	12		24,377,678	23,516,780
Total shareholders' funds	13		529,478,058	481,464,169
Net asset value per ordinary share (basic and diluted)	13		510.8p	466.5p

The financial statements of The Merchants Trust PLC, company number 28276, on pages 50 to 53 were approved by the board of directors on 2 April 2014 and signed on its behalf by:

Simon Fraser
Chairman

The Notes on pages 54 to 72 form an integral part of these financial statements.

Cash Flow Statement

for the year to 31 January

	Notes	2014 £	2014 £	2013 £
Net cash inflow from operating activities	15		27,322,153	26,870,216
Return on investment and servicing of finance				
Interest paid		(9,537,920)		(9,553,329)
Dividends on cumulative preference stock		(42,997)		(42,997)
Net cash outflow from servicing of finance			(9,580,917)	(9,596,326)
Capital expenditure and financial investment				
Purchases of fixed asset investments		(176,561,838)		(145,822,903)
Sales of fixed asset investments		180,153,054		147,646,760
Net cash inflow from capital expenditure and financial investment			3,591,216	1,823,857
Dividends paid on ordinary shares	6		(24,151,950)	(23,945,524)
Unclaimed dividends over 12 years			-	109,133
Net cash outflow before financing			(2,819,498)	(4,738,644)
Financing				
Proceeds from issue of ordinary shares			2,247,250	-
Share issue costs			(4,495)	-
Net cash inflow from financing	11		2,242,755	-
Decrease in cash	16		(576,743)	(4,738,644)

The Notes on pages 54 to 72 form an integral part of these financial statements.

Statement of Accounting Policies

for the year ended 31 January

1 **The financial statements** – The financial statements have been prepared under the historical cost basis, except for the measurement at fair value through profit or loss of investments and derivative financial instruments, and in accordance with applicable accounting standards, the United Kingdom Law and United Kingdom Generally Accepted Accounting Practice (UK GAAP), the Companies Act 2006 and the Statement of Recommended Practice - 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (SORP) issued in January 2009 by the Association of Investment Companies (AIC).

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 significantly exceed liabilities. Accordingly, the directors believe 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 Strategic Report on pages 10 to 14.

2 **Revenue** – Franked, unfranked and overseas dividends received 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. The board review special dividends and their treatment at each meeting.

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 is accounted for on an accruals basis. Commissions in respect of underwriting are recognised when the underwritten issue closes and are generally recognised within the Income Statement as revenue. Where, however, the company is required to take up a proportion of the shares underwritten, the same proportion of the commission received is recognised as capital, with the balance recognised as revenue.

3 **Investment management fees and administration 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. The split is reviewed annually. Other administration expenses are charged in full to revenue, except custodian handling charges on investment transactions 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 or loss are initially recognised at fair value. After initial recognition, these continue to be measured at fair value, which for quoted investments is either the bid price or the last traded price depending on the convention of the exchange on which the investment is listed. Gains or losses on investments are recognised in the capital column of the Income Statement. Purchases and sales of financial assets are recognised on the trade date, being the date which the company commits to purchase or sell the assets.

After initial recognition unquoted stocks are valued by the board on an annual basis.

5 **Derivatives** – Options may be purchased or written over securities held in the portfolio for generating or protecting capital returns, or for generating or maintaining revenue returns. Where the purpose of the option is the maintenance of capital the premium is treated as a capital item. The value of the option is subsequently marked to market to reflect the fair value of the option based on traded prices. When an option is closed out or exercised the gain or loss is accounted for as capital.

Where the purpose of the option is the generation of income, the premium is treated as a revenue item. The value of the option is subsequently marked to market to reflect the fair value of the option based on traded prices. Premiums received on written options are amortised to revenue over the period to expiry. If an option is exercised early unamortised premiums are taken to capital.

6 **Finance costs** – In accordance with the FRS 25 'Financial Instruments: Disclosure and Presentation' and FRS 26 'Financial Instruments: Recognition and Measurement', long term borrowings are stated at the amortised cost being 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.

Finance costs net of amortised premiums are charged to capital and revenue in the ratio 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.

7 **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.

8 **Foreign currency** – In accordance with FRS 23 'The Effect of changes in Foreign Currency Exchanges 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 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 monetary 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 the capital column of the income statement and taken to the capital reserve.

9 **Dividends** – In accordance with FRS 21 'Events After the Balance Sheet Date', the final dividend proposed on ordinary shares is recognised as a liability when approved by shareholders. Interim dividends are recognised only when paid.

10 **Shares repurchased and subsequently cancelled** – Share capital is reduced by the nominal value of the shares repurchased, and the capital redemption reserve is correspondingly increased in accordance with section 733 Companies Act 2006. The full cost of the repurchase is charged to the capital reserve within gains (losses) on sales of investments.

11 **Shares issued** – Share capital is increased by the nominal value of shares issued. The proceeds in excess of the nominal value of shares net of expenses are allocated to the share premium account.

Notes to the Financial Statements

for the year ended 31 January

1. Income

	2014 £	2014 £	2013 £
Income from Investments *			
Franked equity dividends from UK investments #		27,367,156	25,791,894
Unfranked dividends from UK investments		548,717	285,858
Equity dividends from overseas investments		534,818	266,950
		28,450,691	26,344,702
Other Income			
Premiums on derivative contracts	1,214,748		1,944,945
Underwriting commission	161,245		23,012
		1,375,993	1,967,957
Total income		29,826,684	28,312,659

* All equity income is derived from listed investments.
# Includes special dividends of £576,500 (2013 - £115,265).

During the year, the company received premiums totalling £1,093,647 (2013 - £1,858,577) for writing covered call options for the purpose of revenue generation. Premium income of £1,214,748 was amortised to income (2013 - £1,944,945). All derivatives transactions were based on FTSE 100 stocks or the related index. At the year end there were five open positions with a net liability value of £75,000 (2013 - £956,913).

2. Investment Management Fee

	2014 Revenue £	2014 Capital £	2014 Total £	2013 Revenue £	2013 Capital £	2013 Total £
Investment management fee	778,416	1,445,631	2,224,047	668,352	1,241,225	1,909,577
Total	778,416	1,445,631	2,224,047	668,352	1,241,225	1,909,577

The management contract with Allianz Global Investors Europe GmbH, UK Branch (AGI UK), terminable at one year's notice, provides for a management fee based on 0.35% (2013 - 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 managed by AGI UK. Under the contract, AGI UK provides the company with investment management, accounting, secretarial and administration services.

Notes to the Financial Statements *(continued)*

for the year ended 31 January

3. Administration Expenses

	2014 £	2013 £
Auditors' remuneration		
For audit services*	25,530	28,915
Other services - for certification of loan covenants	4,320	3,600
VAT on auditors' remuneration	5,970	6,503
	35,820	**39,018**
Directors' fees	102,750	97,750
Marketing costs	284,021	268,593
Other administration expenses	297,658	278,579
	720,249	683,940

(i) The above expenses include value added tax where applicable.
(ii) Directors' fees are set out in the Directors' Remuneration Report on page 43.
(iii) Custody handling charges of £4,198 were charged to capital (2013 - £2,943).
(iv) *Includes an amount of £4,135 which was paid to the auditor for additional reviews during the 2013 audit. This cost was borne by the company and reimbursed by AGI.

4. Finance Costs: Interest Payable and Similar Charges

	2014 Revenue £	2014 Capital £	2014 Total £	2013 Revenue £	2013 Capital £	2013 Total £
On Stepped Rate Interest Loan repayable after less than five years	1,331,292	2,472,399	3,803,691	1,339,334	2,487,335	3,826,669
On Fixed Rate Interest Loan repayable after more than five years	1,294,709	2,404,459	3,699,168	1,300,271	2,414,788	3,715,059
On 4% Perpetual Debenture Stock repayable after more than five years	19,250	35,750	55,000	19,250	35,750	55,000
On 5.875% Secured Bonds repayable after more than five years	626,912	1,164,265	1,791,177	626,734	1,163,934	1,790,668
On 3.65% Preference Stock repayable after more than five years	42,997	-	42,997	42,997	-	42,997
On Sterling overdraft	11	-	11	59	-	59
	3,315,171	6,076,873	9,392,044	3,328,645	6,101,807	9,430,452

Notes to the Financial Statements *(continued)*

for the year ended 31 January

5. Taxation

	2014 Revenue £	2014 Capital £	2014 Total £	2013 Revenue £	2013 Capital £	2013 Total £
(i) Analysis of tax charge for the year						
Overseas taxation	-	-	-	-	-	-
Current tax charge	-	-	-	-	-	-

(ii) Factors affecting current tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (23.16%) (2013 - 24.33%)

	2014 Revenue £	2014 Capital £	2014 Total £	2013 Revenue £	2013 Capital £	2013 Total £
Reconciliation of tax charge						
Return on ordinary activities before taxation	25,012,848	44,910,236	69,923,084	23,631,722	66,644,134	90,275,856
Tax on return on ordinary activities at 23.16% (2013 - 24.33%)	5,792,975	10,401,211	16,194,186	5,749,598	16,214,518	21,964,116
Reconciling factors						
Non taxable income	(6,462,097)	-	(6,462,097)	(6,340,117)	-	(6,340,117)
Non taxable capital gains	-	(12,144,395)	(12,144,395)	-	(18,001,794)	(18,001,794)
Disallowable expenses	10,144	1,317	11,461	11,142	1,978	13,120
Excess of allowable expenses over taxable income	658,978	1,741,867	2,400,845	579,377	1,785,298	2,364,675
Current tax charge	-	-	-	-	-	-

The standard rate of Corporation Tax in the UK changed from 24% to 23% with effect from 1 April 2013. Accordingly the company's profits for this accounting period are taxed at the effective rate of 23.16% and will be taxed at 23% in the future.

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. As at 31 January 2014, the company had accumulated surplus expenses of £172.5 million (2013 - £162.2 million).

As at 31 January 2014 the company has not recognised a deferred tax asset of £34.5 million (2013 - £37.3 million) in respect of the accumulated expenses, based on a prospective corporation tax rate of 20% (2013 – 23%). The reduction in the standard rate of corporation tax was substantively enacted on 17 July 2013 and is effective from 1 April 2015. Provided the company continues to maintain its current investment profile, it is unlikely that these expenses will be utilised and that the company will obtain any benefit from this asset.

The company will continue to seek approval under section 1158 of the Corporation Tax Act 2010 for the current year and the foreseeable future. The company has not therefore provided for deferred tax on any capital gains and losses arising on the disposals of investments.

6. Dividends on Ordinary Shares

	2014 £	2013 £
Dividends on Ordinary Shares of 25p		
Third interim dividend 5.8p paid 27 February 2013 (2012 - 5.8p)	5,986,381	5,986,381
Final interim dividend 5.8p paid 15 May 2013 (2012 - 5.8p)	5,986,381	5,986,381
First interim dividend 5.9p paid 14 August 2013 (2012 - 5.8p)	6,089,594	5,986,381
Second interim dividend 5.9p paid 12 November 2013 (2012 - 5.8p)	6,089,594	5,986,381
	24,151,950	**23,945,524**

Dividends payable at the year end are not recognised as a liability under FRS 21 'Events After Balance Sheet Date' (see page 55 - Statement of Accounting Policies). Details of these dividends are set out below.

	2014 £	2013 £
Third interim dividend 5.9p paid 26 February 2014 (2013 - 5.8p)	6,110,244	5,986,381
Final proposed dividend 5.9p payable 23 May 2014 (2013 - 5.8p)	6,116,144	5,986,381
	12,226,388	**11,972,762**

The proposed final dividend accrued is based on the number of shares in issue at the year end. However, the dividend payable will be based on the numbers of shares in issue on the record date and will reflect any share issues or share buybacks settled subsequent to the year end.

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 or additional rate will have further tax to pay.

7. Net Return per Ordinary Share

	2014 Revenue £	2014 Capital £	2014 Total Return £	2013 Revenue £	2013 Capital £	2013 Total Return £
Net return after taxation attributable to ordinary shareholders	25,012,848	44,910,236	69,923,084	23,631,722	66,644,134	90,275,856
Net return per ordinary share (basic and diluted)	24.22p	43.48p	67.70p	22.90p	64.57p	87.47p

The weighted average number of shares in issue during the year was 103,286,752 (2013 - 103,213,464).

Notes to the Financial Statements *(continued)*

for the year ended 31 January

8. Investments

	2014 £	2013 £
Listed on the London Stock Exchange at market valuation	631,224,383	587,885,448
Unlisted at fair value (see Note 9)	32,032	27,969
Fixed asset investments	**631,256,415**	**587,913,417**
Derivative financial instruments - written call options	(75,000)	(956,913)
Total investments	**631,181,415**	**586,956,504**
Market value of investments brought forward	586,956,504	511,777,930
Investment holding gains brought forward	(79,009,589)	(15,724,039)
Derivative holding losses brought forward	761,447	5,675
Cost of investments held brought forward	**508,708,362**	**496,059,566**
Additions at cost	173,549,516	148,835,225
Disposals at cost	(130,453,417)	(136,186,429)
Cost of investments held at 31 January	**551,804,461**	**508,708,362**
Investment holding gains at 31 January	79,363,515	79,009,589
Derivative holding gains (losses) at 31 January	13,439	(761,447)
Market value of investments held at 31 January	**631,181,415**	**586,956,504**

Net gains on investments

	2014 £	2013 £
Net gains on sales of investments based on historical costs	51,355,968	11,370,747
Adjustment for net investment holding (gains) losses recognised in previous years	(28,848,658)	1,848,146
Net gains on sales of fixed asset investments based on carrying value at previous balance sheet date	**22,507,310**	**13,218,893**
Net losses on derivative financial instruments	(47,842)	(42,377)
Net gains on sales of investments based on carrying value at previous balance sheet date	**22,459,468**	**13,176,516**
Net investment holding gains arising in the year	29,202,584	61,437,404
Special dividends credited to capital	-	131,962
Net derivative holding gains (losses) arising in the year	774,886	(755,773)
Net gains on investments	**52,436,938**	**73,990,109**

Transaction costs and stamp duty on purchases amounted to £1,050,202 (2013 - £972,110) and transaction costs on sales amounted to £152,904 (2013 - £147,274).

Notes to the Financial Statements *(continued)*

for the year ended 31 January

9. Investments in Other Companies

The company held more than 3% of the share capital of the following companies, both of which are incorporated in Great Britain and registered in England and Wales:

Company	Class of Share held	% Equity
First Debenture Finance PLC (FDF)	'A' Shares	50.0
	'B' Shares	50.0
	'C' Shares	50.0
	'D' Shares	50.0
Fintrust Debenture PLC (Fintrust)	Ordinary Shares	50.0

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 and in certain contracts between the company and each of FDF and Fintrust. Accordingly, FDF and Fintrust are not considered to be associate undertakings as per FRS9 and are therefore included in the balance at the director's valuation. 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

	2014 £	2013 £
Debtors		
Sales for future settlement	1,608,489	-
Share issue	487,024	-
Other debtors	26,425	27,880
Accrued income	1,621,028	1,923,649
	3,742,966	**1,951,529**
Creditors: Amounts falling due within one year		
Purchases for future settlement	-	3,012,322
Other creditors	1,528,647	901,736
Interest on borrowings	1,334,874	1,335,323
	2,863,521	**5,249,381**
Interest on outstanding borrowings consists of:		
Stepped Rate Interest Loan	307,836	313,728
Fixed Rate Interest Loan	783,545	779,240
5.875% Secured Bonds 2029	208,243	207,105
4% Perpetual Debenture Stock	13,751	13,751
3.65% Cumulative Preference Stock	21,499	21,499
	1,334,874	**1,335,323**

Notes to the Financial Statements *(continued)*

for the year ended 31 January

		2014 £	2013 £
Creditors: Amounts falling due after more than one year			
Stepped Rate Interest Loan	10(i)	34,034,109	34,034,109
Fixed Rate Interest Loan	10(ii)	44,858,512	45,074,175
5.875% Secured Bonds 2029	10(iii)	29,220,566	29,193,327
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
		110,666,187	110,854,611

(i) The Stepped Rate Interest Loan of £34,034,109 (2013- £34,034,109) comprises adjustable Stepped Rate Interest Loan Notes of £5,133,520 and Stepped Rate Interest Bonds of £20,534,079. The Loan Notes and Bonds were issued in 1987 at 97.4% and are repayable on 2 January 2018, together with a premium of £8,366,510.

The initial interest rate 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%. This stepped interest rate, when combined with the accrual of the premium, results in an effective interest rate of 11.28% per annum.

Interest on Loan Notes and Bonds 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).

FDF has a liability to its debenture stockholders to repay principal and interest on its £52.2 million of 11.125% Severally Guaranteed Debenture Stock 2018. The company has guaranteed the repayment of principal and interest on £34.0 million of FDF's debenture stock. This is in proportion to the principal amounts raised by the company in 1987 in respect of the Loan Notes and Bonds. 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.

(ii) The Fixed Rate Interest Loan of £42,000,000 is due to Fintrust Debenture PLC (Fintrust). It comprises a loan of £30,000,000 taken out in 1993, and a further amount of £12,000,000 assumed in 1998 from another of Fintrust's borrowers. This loan is repayable on 20 May 2023 and carries interest at 9.25125% per annum on the principal amount. Interest is payable in May and November each year.

As security for this loan, the company has granted a floating charge over its assets in favour of the lender. This charge ranks pari passu with the floating charge noted in 10(i) above.

The loan of £30,000,000 taken out in 1993 is stated at £29,911,310 (2013 - £29,909,019), being the net proceeds of £29,858,947 plus accrued finance cost of £52,363 (2013 - £50,072). The effective interest rate of this portion of the loan is 9.51%.

On assuming the additional loan of £12,000,000 in 1998, the company also received a premium of £5,286,564 to ensure that the finance costs on this additional loan were comparable to existing market interest rates. This premium is being amortised over the remaining life of the loan. At 31 January 2014, the loan is stated at £14,947,202 (2013 - £15,165,156), being the principal amount of £12,000,000 plus the unamortised premium of £2,947,202 (2013 - £3,165,156). The effective interest rate of this portion of the loan is 6.00%.

(iii) The £30,000,000 of 5.875% Secured Bonds is stated at £29,220,566 (2013 - £29,193,327), being the net proceeds of £28,942,800 plus accrued finance costs of £277,766 (2013 - £250,527). The Bonds are repayable on 20 December 2029 and carry interest at 5.875% per annum on the principal amount. Interest is payable in June & December each year. The effective interest rate of this loan is 6.23% per annum.

As security for this loan, the company has granted a floating charge over its assets ranking pari passu with the floating charges referred to in note 10(i) and 10(ii) above.

(iv) The 4% perpetual debenture stock of £1,375,000 is secured by a floating charge on the assets of the company, which ranks prior to any other floating charge. Interest is payable on 1 May and 1 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 preference stock holders to receive payments is not calculated by reference to the company's net return and, in the event of a return of capital is limited to a specific amount, being £1,178,000. Dividends on the preference stock are payable on 1 February and 1 August each year. The preference stock is non-redeemable.

11. Called up Share Capital

	2014 £	2013 £
Allotted and fully paid		
103,663,464* ordinary shares of 25p (2013 - 103,213,464)	25,915,866	25,803,366

*Inclusive of 100,000 shares allotted on 31 January 2014. These shares were fully paid after the year end.

The directors are authorised by an ordinary resolution passed on 10 May 2013 to allot relevant securities, in accordance with section 551 on the Companies Act 2006, up to a maximum of 34,404,488 ordinary shares of 25p each. This authority expires on 21 May 2014 and accordingly a renewed authority will be sought at the annual general meeting on 21 May 2014.

During the year the company issued 450,000 ordinary shares. After deducting expenses of £4,495, the net cash proceeds were for value £2,242,755. Since the year end the company issued a further 500,000 ordinary shares.

Notes to the Financial Statements *(continued)*

for the year ended 31 January

12. Reserves

	Share Premium Account £	Capital Redemption Reserve £	Capital Reserve* Gains (Losses) on sales of Investments £	Capital Reserve* Investment Holding Gains (Losses) £	Revenue Reserve £
Balance at 1 February 2013	8,523,195	292,853	345,079,833	78,248,142	23,516,780
Net gains on sales of fixed asset investments	-	-	22,507,310	-	-
Net losses on derivative financial instruments	-	-	(47,842)	-	-
Net movement in fixed asset investment holding gains	-	-	-	29,202,584	-
Net movement in derivative holding gains	-	-	-	774,886	-
Transfer on sale of investments	-	-	28,848,658	(28,848,658)	-
Issue of ordinary shares	2,134,750	-	-	-	-
Expenses of issue	(4,495)	-	-	-	-
Investment management fee	-	-	(1,445,631)	-	-
Finance costs of borrowings	-	-	(6,076,873)	-	-
Other capital expenses	-	-	(4,198)	-	-
Dividends appropriated in the year	-	-	-	-	(24,151,950)
Revenue retained for the year	-	-	-	-	25,012,848
Balance at 31 January 2014	**10,653,450**	**292,853**	**388,861,257**	**79,376,954**	**24,377,678**

*The Institute of Chartered Accountants in England and Wales (ICAEW), in its technical guidance TECH 02/10, states that investment holding gains arising out of a change in fair value of assets may be recognised as realised provided they can be readily converted into cash. Securities listed on a stock exchange are generally regarded as being readily convertible into cash and hence profits in respect of such securities, currently included within the investment holding losses of the capital reserve above, may be regarded as realised under company law.

13. Net Asset Value per Share

	Net asset value per share attributable 2014	2013
Ordinary shares of 25p	510.8p	466.5p

	Net Asset Value attributable 2014	2013
Ordinary shares of 25p	£529,478,058	£481,464,169

The net asset value per ordinary share is based on 103,663,464 ordinary shares in issue at the year end (2013 - 103,213,464).

14. Contingent Liabilities and Commitments

At 31 January 2014 contingent commitments amounted to £1,029,878 in respect of 447,773 Cineworld rights shares at 230p (2013 - nil).

Details of the guarantee provided by the company as part of the terms of the Loans are provided in Note 10(i), 10(ii) and 10(iii) 'Current assets and Creditors on pages 62 and 63.

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

	2014 £	2013 £
Net return before finance costs and taxation	79,315,128	99,706,308
Add: Special dividends credited to capital	-	131,962
Less: Net gains on investments at fair value	(52,436,938)	(74,122,071)
	26,878,190	**25,716,199**
(Increase) Decrease in debtors	(182,948)	1,095,540
Increase in creditors	626,911	58,477
Net cash inflow from operating activities	**27,322,153**	**26,870,216**

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

	Cash £	Stepped and Fixed Rate Loans £	5.875% Secured Bonds 2029 £	4% Perpetual Debenture Stock £	3.65% Preference Stock £	Net Debt £
(i) Analysis of net debt						
At 1 February 2013	8,660,128	(79,108,284)	(29,193,327)	(1,375,000)	(1,178,000)	(102,194,483)
Movement in year	(576,743)	215,663	(27,239)	-	-	(388,319)
At 31 January 2014	**8,083,385**	**(78,892,621)**	**(29,220,566)**	**(1,375,000)**	**(1,178,000)**	**(102,582,802)**

	2014 £	2013 £
(ii) Reconciliation of net cash flow to movement in net debt		
Net cash outflow	(576,743)	(4,738,644)
Decrease in long term loans	188,424	166,368
Movement in net funds	**(388,319)**	**(4,572,276)**
Net debt brought forward	(102,194,483)	(97,622,207)
Net debt carried forward	**(102,582,802)**	**(102,194,483)**

Notes to the Financial Statements *(continued)*

for the year ended 31 January

17. Financial Risk Management Policies and Procedures

The Company invests in equities and other investments in accordance with its investment objective as stated on page 1. In pursuing its investment policy, 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 profits available for distribution by way of dividends.

The main risks arising from the company's financial instruments are: market price risk, market yield risk, foreign currency risk, interest rate risk, 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, implement the company's risk management policies. The company's policy allows the use of derivative financial instruments to moderate risk exposure and to generate additional revenue. These policies have remained substantially unchanged during the current and preceding period.

(a) Market Risk

The investment manager assesses the 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 price risk, market yield risk, foreign currency risk and interest rate risk.

(i) Market Price Risk

Market price risk arises mainly from the 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.

Changes 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 18 on page 71. 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 investments (i.e fixed asset investments, excluding unlisted equities) which were exposed to market price risk as at 31 January 2014 was as follows:

	2014 £	2013 £
Listed investments held at fair value through profit or loss	631,224,383	587,885,448
Derivative financial instruments - written call options	(75,000)	(956,913)
Total listed investments	**631,149,383**	**586,928,535**

The following illustrates the sensitivity of the return and the net assets to an increase or decrease of 20% (2013 - 20%) in the fair values of the company's listed investments. This level of change is considered to be reasonably possible based on observation of market conditions in the recent years. The sensitivity analysis on the net return after tax is based on the impact of a 20% increase or decrease in 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.

	2014 20% Increase in fair value £	2014 20% Decrease in fair value £	2013 20% Increase in fair value £	2013 20% Decrease in fair value £
Revenue return				
Investment management fees	(154,650)	154,650	(144,032)	144,032
Capital return				
Net gains (losses) on investments at fair value	126,229,877	(126,229,877)	117,385,707	(117,385,707)
Investment management fees	(287,207)	287,207	(267,488)	267,488
Change in net return and net assets	**125,788,020**	**(125,788,020)**	**116,974,187**	**(116,974,187)**

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. Call options are only written on stock owned within the portfolio with a maximum exposure of 15% of gross assets at the time of writing the call.

(ii) Market Yield Risk
Market yield risk arises from the uncertainty about the company's ability to maintain its income objectives due to systematic decline in corporate dividend levels.

Where call options are sold (written), in all cases a sufficient position is maintained in the underlying equity to cover any potential option exercise. Whilst the option value can be volatile, price movements should to some extent be offset by opposing movements in the value of the underlying equity. If options are retained until expiry they will either expire worthless or be exercised. The effect of any option exercise is to sell the underlying shares at the strike price of the option. A schedule of the company's listed holdings is shown on pages 24 and 25. Where put options are purchased, the market value of such options can be volatile but the maximum loss on any contract is limited to the original investment cost. No put options were purchased in the year (see Note 1).

Further explanation of the derivative strategy is included in the Investment Manager's Review on page 21.

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 values 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 (2013 - no significant exposure).

Any income denominated in foreign currency is converted into sterling on receipt. The company does not hedge against foreign currency exposure.

(iv) Interest Rate Risk
Interest rate risk is the risk of movements in the value of financial instruments as a result of fluctuations in interest rates.

Notes to the Financial Statements *(continued)*

for the year ended 31 January

Interest Rate Exposure

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

	2014 Fixed rate interest £	2014 Floating rate interest £	2014 Nil interest £	2014 Total £	2013 Fixed rate interest £	2013 Floating rate interest £	2013 Nil interest £	2013 Total £
Financial Assets	-	8,083,385	631,256,415	639,339,800	-	8,660,128	587,913,417	596,573,545
Financial Liabilities	(110,666,187)	-	(75,000)	(110,741,187)	(110,854,611)	-	(956,913)	(111,811,524)
Net Financial (Liabilities) Assets	**(110,666,187)**	**8,083,385**	**631,181,415**	**528,598,613**	**(110,854,611)**	**8,660,128**	**586,956,504**	**484,762,021**
Short term debtors and creditors				879,445				(3,297,852)
Net Assets per Balance Sheet				**529,478,058**				**481,464,169**

As at 31 January 2014, the interest rates received on cash balances or paid on bank overdrafts, was nil and 1.35% per annum respectively (2013 - nil and 1.35% per annum).

The fixed rate interest bearing liabilities bear the following coupon and effective rates as at 31 January 2014 and 31 January 2013

	Maturity date	Amount borrowed £	Coupon rate	Effective rate since inception*
First Debenture Finance PLC (FDF) - Bonds	02/01/2018	5,133,520	14.75%	11.28%
First Debenture Finance PLC (FDF) - Notes	02/01/2018	20,534,079	14.75%	11.28%
Fintrust Debenture PLC (Fintrust) - Original Loan	20/05/2023	30,000,000	9.25125%	9.51%
Fintrust Debenture PLC (Fintrust) - Additional Loan	20/05/2023	12,000,000	9.25125%	6.00%
5.875% Secured Bonds 2029	20/12/2029	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 on page 54.

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

The weighted average effective rate of the company's fixed interest bearing liabilities (excluding the 3.65% Cumulative Preference Stock and the 4% Perpetual Debenture Stock) is 8.54% (2013 - 8.54%) and the weighted average period to maturity of these liabilities is 10.2 years (2013 - 11.2 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 2014, the company held no fixed interest securities. The company's policy is to remain substantially fully invested and thus does not expect to hold significant cash balances. 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.

(b) 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 table below presents the future cash flows payable by the company in respect of its financial liabilities.

Cash flows in respect of the principal and interest on the Stepped Rate Interest Loan, Fixed Rate Interest Loan and 5.875% Secured Bonds 2029 reflect the maturity dates as set out in Note 10 on pages 61 to 63. The loans are each governed by a trust deed and only if the covenants are breached would early repayment be enforced, therefore their repayment is not considered to be a likely short term liquidity issue. Cash flows in respect of the 4% Perpetual Debenture Stock and 3.65% Cumulative Preference Stock, which have no fixed repayment date, assumes maturity of 20 years from the balance sheet date. Cash flows have not been discounted.

2014	Three months or less £	Between three months and one year £	Between one and five years £	More than five years £	Total £
Creditors - amounts falling due within one year					
Finance costs of borrowing	21,499	9,510,471	-	-	9,531,970
Other Creditors	1,528,647	-	-	-	1,528,647
Derivative financial instruments	75,000	-	-	-	75,000
Creditors - amounts falling due after more than one year					
Amounts payable on maturity of borrowings	-	-	34,034,109	74,553,000	108,587,109
Finance cost of borrowings	-	-	34,342,232	38,380,866	72,723,098
	1,625,146	9,510,471	68,376,341	112,933,866	192,445,824

2013	Three months or less £	Between three months and one year £	Between one and five years £	More than five years £	Total £
Creditors - amounts falling due within one year					
Finance costs of borrowing	21,499	9,510,471	-	-	9,531,970
Other Creditors	3,914,058	-	-	-	3,914,058
Derivative financial instruments	956,913	-	-	-	956,913
Creditors - amounts falling due after more than one year					
Amounts payable on maturity of borrowings	-	-	34,034,109	74,553,000	108,587,109
Finance cost of borrowings	-	-	38,127,880	45,775,960	83,903,840
	4,892,470	9,510,471	72,161,989	120,328,960	206,893,890

Notes to the Financial Statements *(continued)*

for the year ended 31 January

Management of liquidity risk

Liquidity risk is not significant as the company's assets mainly comprise of 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 2014, the company had an undrawn committed borrowing facility of £10 million (2013 - £10 million).

(c) Credit Risk

Credit risk is the risk of default by a counterparty in discharging 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.

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 Aa3 by Moody's rating agency. The directors believe the counterparties the company has chosen to transact with are 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:

	2014 £	2013 £
Debtors		
Outstanding settlements	1,608,489	-
Share issue	487,024	-
Accrued income	1,621,028	1,923,649
Other debtors	26,425	27,880
	3,742,966	**1,951,529**
Cash at bank	8,083,385	8,660,128
	11,826,351	**10,611,657**

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 including interest on outstanding borrowings due within one year have the following fair values*:

	2014 Book value £	2014 Fair value £	2013 Book value £	2013 Fair value £
Stepped Rate Interest Loan	34,341,945	43,935,611	34,347,837	46,795,527
Fixed Rate Interest Loan	45,642,057	57,410,686	45,853,415	62,613,559
5.875% Secured Bonds 2029	29,428,809	33,780,306	29,400,432	34,507,808
4% Perpetual Debenture Stock	1,388,751	944,039	1,388,751	950,013
3.65% Cumulative Preference Stock	1,199,499	751,091	1,199,499	737,738
	112,001,061	**136,821,733**	**112,189,934**	**145,604,645**

The net asset value per ordinary share, with debt at fair value is 486.8p (2013 - 434.1p).

* The fair value has been derived from the closing market value as at 31 January 2014 and 31 January 2013.

FRS 29 'Financial Instruments: Disclosures' has been expanded to include a fair value hierarchy for the disclosure of fair value measurement of financial instruments.

As at 31 January 2014, the financial assets at fair value through profit and loss of £631,181,415 (2013 - £586,956,504) are categorised as follows:

	2014 £	2013 £
Level 1	631,149,383	586,928,535
Level 2	-	-
Level 3	32,032	27,969
	631,181,415	**586,956,504**

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant assets as follows:

Level 1 - valued using quoted prices in active markets.
Level 2 - valued by reference to valuation techniques using observable inputs other than quoted prices included in level 1.
Level 3 - valued by reference to valuation techniques using inputs that are not based on observable market data.

The movement in Level 3 relates to the liquidation and delisting of W&G Investment which is now valued at £4,063.

18. 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. It invests in high yielding stocks and receives premium income from options.

The company's capital at 31 January 2014 comprises:

	2014 £	2013 £
Debt		
Creditors: amounts falling due after more than one year	110,666,187	110,854,611
	110,666,187	**110,854,611**
Equity		
Called up share capital	25,915,866	25,803,366
Share premium account and other reserves	503,562,192	455,660,803
	529,478,058	**481,464,169**
Total Capital	**640,144,245**	**592,318,780**
Debt as a percentage of total capital	17.3%	18.7%

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 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 whether to issue shares or repurchase shares for cancellation.

The company is subject to several externally imposed capital requirements; the banks borrowings under the overdraft facility are not to exceed £10m, and as a public company the minimum share capital is £50,000. The company's objective, policies and processes for managing capital are unchanged from the preceding accounting period, and the company has complied with them. The terms of the debenture trust deeds have various covenants which prescribe that moneys borrowed should not exceed the adjusted total value of the capital and reserves. These are measured in accordance with the policies used in the annual report. The company has complied with these.

Notes to the Financial Statements *(continued)*

for the year ended 31 January

19. Transaction with the Investment Manager and related parties

The amounts paid to the investment manager together with details of the investment management contract are disclosed in Note 2. The existence of an independent board of directors demonstrates that the company is free to pursue its own financial and operating policies and therefore, under FRS8: Related Party Disclosures, the investment manager is not considered to be a related party.

The company's related parties are its directors. Fees paid to the company's board are disclosed in the Directors' Remuneration Report on page 43.

There are no other identifiable related parties at the year end, and as of 2 April 2014.

The Merchants Trust PLC

Investor Information

Investor Information

The company's ordinary shares are listed on the London Stock Exchange. The market price range, gross yield and net asset value are shown daily in the Financial Times and The Daily Telegraph under the headings 'Investment Companies' and 'Investment Trusts', respectively.

Financial Calendar

Year end 31 January.
Full year results announced and Annual Report posted to shareholders in April.
Annual General Meeting held in May.
Interim Management Statements announced in May and November.
Half-yearly Report posted to shareholders in September.

How to Invest

Alliance Trust Savings Limited (ATS) is one of a number of providers offering a range of products and services, including Share Plans, ISAs and pension products. ATS also maintains services including online and telephone-based dealing facilities and online valuations. More information is available from Allianz Global Investors either via Investor Services on 0800 389 4696 or on the Trust's website: www.merchantstrust.co.uk, or from Alliance Trust Savings Customer Services Department on 01382 573737 or by e-mail: contact@alliancetrust.co.uk.

A list of other providers can be found at the Trust's website: www.merchantstrust.co.uk.

Ordinary Dividends

It is anticipated that dividends will be paid as follows:

1st quarterly	August
2nd quarterly	November
3rd quarterly	February
Final	May

Preference Dividends

Payable half-yearly	1 February and 1 August.

Market and Portfolio Information

The company's ordinary shares are listed on the London Stock Exchange. The market price range, gross yield and net asset value are shown daily in the Financial Times and The Daily Telegraph under the headings 'Investment Companies' and 'Investment Trusts', respectively. The net asset value of the ordinary shares is calculated daily and published on the London Stock Exchange Regulatory News Service. The geographical spread of investments and ten largest holdings are published monthly on the London Stock Exchange Regulatory News Service. They are also available from the manager's Investors Helpline on 0800 389 4696 or via the company's website: www.merchantstrust.co.uk.

Website

Further information about The Merchants Trust PLC, including monthly fact sheets, daily share price and performance, is available on the company's website: www.merchantstrust.co.uk.

Dividend

The board is recommending a final distribution of 5.9p to be payable on 23 May 2014 to shareholders on the Register of Members at the close of business on 25 April 2014, making a total distribution of 23.6p per share for the year ended 31 January 2014, an increase of 1.7% over last year's distribution. The ex dividend date is 23 April 2014.

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 Capita Asset Services. Dividends mandated in this way are paid via Bankers' Automated Clearing Services (BACS). Tax vouchers will then be sent directly to shareholders at their registered address unless other instructions have been given.

Investor Information *(continued)*

Registrars

Capita Asset Services, The Registry,
34 Beckenham Road, Beckenham, Kent BR3 4TU
Telephone: 020 8639 3399.
Lines are open 9.00 a.m. to 5.30 p.m.
(London time) Monday to Friday.
Email: ssd@capita.co.uk
Website: www.capitaassetservices.com

Shareholder Enquiries

In the event of queries regarding their holdings of shares, lost certificates, dividend payments, registered details, etc., shareholders should contact the registrars on 020 8639 3399. Lines are open 9.00 a.m. to 5.30 p.m. (London time) Monday to Friday. Calls may be recorded and monitored randomly for security and training purposes.

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, 199 Bishopsgate, London EC2M 3TY. Telephone: 020 7065 1513.

Dividend Reinvestment Plan for Ordinary Shareholders (DRIP)

The registrars offer a DRIP which gives ordinary shareholders the opportunity to use their cash dividend to buy further shares in the company under a low-cost dealing arrangement. Terms and Conditions and an application form are enclosed with each dividend payment.

Share Dealing Services

Capita Asset Services operate an online and telephone dealing facility for UK resident shareholders with share certificates. Stamp duty and commission may be payable on transactions. For further information on these services please contact: www.capitadeal.com for online dealing or 0871 664 0454 for telephone dealing. Lines are open 8.00 a.m. to 4.30 p.m. Monday to Friday. Calls to the 0871 664 0454 number are charged at 10 pence per minute plus any of your service providers' network extras. Different charges may apply to calls made from mobile telephones and calls may be recorded and monitored randomly for security and training purposes.

Share Portal

Capita Asset Services offer shareholders a free online 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 change existing bank details.

Shareholders can access these services at www.capitaassetservices.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.

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.

Capita Asset Services offer shareholders a free online service called The Share Portal, enabling shareholders to access a comprehensive range of shareholder related information.

Investor Information *(continued)*

Capita Asset Services operate an international payment service for shareholders, whereby they can elect either for their dividend to be paid by foreign currency draft or they can request an international bank mandate.

International Payment Services

Capita Asset Services operate an international payment service for shareholders, whereby they can elect either for their dividend to be paid by foreign currency draft or they can request an international bank mandate. This service is only available for dividend payments of £10 or more.

The International Payment Service will generally cost less than the fees charged by your local bank to convert your sterling dividend into your local currency. A £5 administration fee per dividend payment applies. Your dividends are paid as cleared funds directly into your bank or sent to you as a draft.

Capita Asset Services, working in partnership with Deutsche Bank, will arrange for your dividend to be exchanged into your local currency at competitive rates based on actual market rates.

To use this service you will need to register online at: www.capitaassetservices.com/international or by contacting Capita as detailed below.

For further information on these services please contact: 020 8639 3405. Lines are open between 9.00am and 5.30pm, Monday to Friday) or email IPS@capita.co.uk.

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 Equity Income.

Warning to Shareholders

We are aware that some shareholders may have received unsolicited telephone calls or correspondence concerning investment matters. These are typically from overseas based organisations who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. They can be extremely persistent and extremely persuasive. Shareholders are therefore advised to be very wary of any unsolicited advice or offers.

Please note that it is most unlikely that either the company or the company's Registrar, Capita Asset Services, would make unsolicited telephone calls to shareholders. Any such calls would only ever relate to official documentation already circulated to shareholders and never in respect of investment 'advice'.

If you are in any doubt about the veracity of an unsolicited telephone call, please call either the Company Secretary or the Registrar on the numbers provided above.

Notice of Meeting

Notice is hereby given that the annual general meeting of The Merchants Trust PLC will be held at Holborn Bars, 138-142 Holborn, London EC1N 2NQ on Wednesday 21 May 2014 at 12 noon to transact the following business.

Ordinary Business

1 To receive and adopt the Directors' Report and the Financial Statements for the year ended 31 January 2014 together with the Auditors' Report thereon.

2 To declare a final dividend of 5.9p per ordinary share.

3 To re-elect Simon Fraser as a director.

4 To re-elect Mike McKeon as a director.

5 To re-elect Henry Staunton as a director.

6 To re-elect Paul Yates as a director.

7 To approve the Directors' Remuneration Policy Report.

8 To approve the Directors' Remuneration Implementation Report.

9 To reappoint 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.

10 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 11 will be proposed as an ordinary resolution and resolutions 12 and 13 as special resolutions:

11 That for the purposes of section 551 of the Companies Act 2006 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 a maximum number of 34,721,154 ordinary shares provided that:

(i) the authority granted shall expire one year 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 one year; 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.

12 That the directors be empowered in accordance with section 570 of the Companies Act 2006 (the Act) to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority conferred by resolution 11 as if sub-section (1) of section 561 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 a maximum number of 10,416,346 ordinary shares;

(ii) the power granted shall (unless previously revoked or renewed) expire at the conclusion of the next annual general meeting of the company after this resolution is passed, or 21 August 2015 if earlier; 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.

13 That the company be and is hereby generally and unconditionally authorised in accordance with section 701 of the Companies Act 2006 (the Act) to make market purchases (within the meaning of section 693(4) 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 15,614,103;

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

(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;

Notice of Meeting *(continued)*

(iv) the authority hereby conferred shall expire at the conclusion of the annual general meeting of the company in 2015 or, if earlier, on the expiry of 15 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.

By order of the Board

Kirsten Salt
Company Secretary
199 Bishopsgate, London, EC2M 3TY
2 April 2014

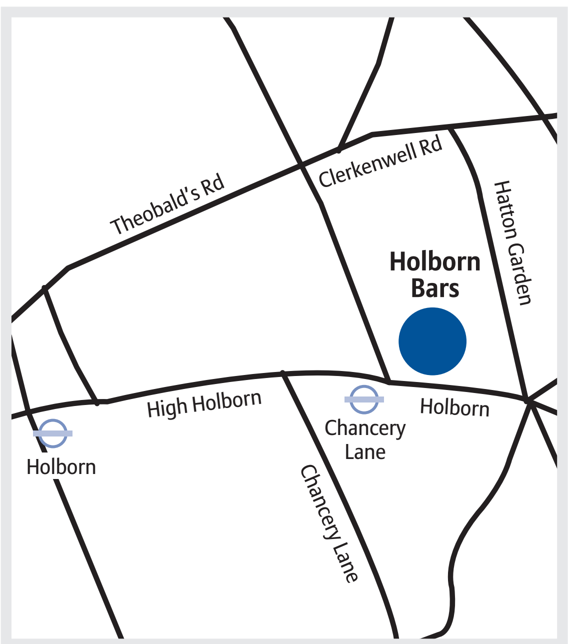
Notes:

1. Members entitled to attend and vote at this meeting may appoint one or more proxies to attend, speak and vote in their stead by completion of a personalised form of proxy. Full details on how to complete the form of proxy are set out on the form of proxy. The proxy need not be a member of the company.
2. A proxy must vote in accordance with any instructions given by the member by whom the proxy is appointed. A proxy has one vote on a show of hands in all cases (including where one member has appointed multiple proxies), except where he is appointed by multiple members who instruct him to vote in different ways, in which case he only has one vote for and one vote against the resolution.
3. A personalised form of proxy is provided with the Annual Report. Any replacement forms must be requested direct from the registrar.
4. Completion of the form of proxy does not exclude a member from attending the meeting and voting in person.
5. Duly completed forms of proxy must reach the office of the registrars at least 48 hours (excluding non-business days) before the meeting.
6. 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 on the Euroclear website (www.euroclear.com/CREST).
7. To be entitled to attend and vote at the meeting (and for the purpose of determination by the company of the number of votes they may cast), members must be entered on the company's Register of Members by 6pm on 19 May 2014 (the record date).
8. If the meeting is adjourned to a time not more than 48 hours after the record date 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 new notice of the adjourned meeting, at the record date specified in that notice.
9. The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who has been nominated to receive communications from the company in accordance with section 146 of the Companies Act 2006 (nominated persons). Nominated persons may have a right under an agreement with the registered shareholder who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights. Nominated persons should contact the registered member by whom they were nominated in respect of these arrangements.
10. Corporate representatives are entitled to attend and vote on behalf of the corporate member in accordance with section 323 of the Companies Act 2006. Pursuant to the Companies (Shareholders' Rights) Regulations 2009 (SI 2009/1632), multiple corporate representatives appointed by the same corporate member can vote in different ways provided they are voting in respect of different shares.

Notice of Meeting *(continued)*

11. Members have a right under section 319A of the Companies Act 2006 to require the company to answer any question raised by a member at the AGM, which relates to the business being dealt with at the meeting, although no answer need be given (a) if to do so would interfere unduly with the preparation of the meeting or involve disclosure of confidential information; (b) if the answer has already been given on the company's website; or (c) it is undesirable in the best interests of the company or the good order of the meeting.
12. Members satisfying the thresholds in section 527 of the Companies Act 2006 can require the company, at its expense, to publish a statement on the company website setting out any matter which relates to the audit of the company's accounts that are to be laid before the meeting. Any such statement must also be sent to the company's auditors no later than the time it is made available on the website and must be included in the business of the meeting.
13. As at 2 April 2014, the latest practicable date before this notice is given, the total number of ordinary shares and preference stock in the company in respect of which members are entitled to exercise voting rights was 104,163,464 ordinary shares of 25p each and 1,178,000 3.65% Cumulative Preference Stock of £1 each. Each carries the right to one vote and therefore, the total number of voting rights in the company is 105,341,464.
14. Further information regarding the meeting which the company is required by section 311A of the Companies Act 2006 to publish on a website in advance of the meeting (including this notice), can be accessed at www.merchantstrust.co.uk.
15. Contracts of service are not entered into with the directors, who hold office in accordance with the company's Articles.

Annual General Meeting venue



The Merchants Trust PLC
199 Bishopsgate
London
EC2M 3TY

Tel: +44 (0)20 7859 9000
www.merchantstrust.co.uk